



---

# ***JPRS Report***

## **China**

---

This report contains information which is or may be copyrighted in a number of countries. Therefore, copying and/or further dissemination of the report is expressly prohibited without obtaining the permission of the copyright owner(s).

# China

JPRS-CAR-94-046

## CONTENTS

15 September 1994

### ECONOMIC

#### National Affairs, Policy

- Impact on Local Economy of Major Reforms in 1994 [JINGJI YU GUANLI YANJIU 8 Jun] ..... 1

#### Provincial

- Economic Development Plans for Jiangsu [JIANGSU XUEKAN 10 May] ..... 4  
Hunan Party Secretary Views Economic Development [KUANG-CHIAO CHING 16 Jun] ..... 6

#### Finance, Banking

- Local Governments' Revenue Decreases Under Tax System  
[JINGJI YU GUANLI YANJIU 8 Jun] ..... 11  
Article Views Impact of Tax Reform on Prices [JIAGE LILUN YU SHIJIAN 20 Jun] ..... 13  
Implementation of Standards for Enterprise Accounting [JINGJI RIBAO 7 Jul] ..... 16  
Article Views Tax Revenue Losses Through Loopholes  
[ZHONGGUO GUOQING GUOLI 28 May] ..... 17  
Financial Reform Appealing But Difficult [JINGJI CANKAO BAO 20 Jul] ..... 19  
New Tax System Shows Positive Results [JINGJI CANKAO BAO 15 Jul] ..... 22  
Treasury Bonds Sold Successfully [JINGJI RIBAO 5 Jul] ..... 23  
Financial Control Measures Need To Continue [JINGJI CANKAO BAO 28 Jul] ..... 24

#### Industry

- Statistics on Textile Output in July [CEI Database] ..... 25  
Statistics on Gross Industrial Output Value in July [CEI Database] ..... 26  
Interview With Lu Jiang on Material Supply Enterprises [ZHONGGUO WUZI BAO 22 Jul] ..... 26  
Light Industrial Output Value by Area in June [CEI Database] ..... 29

#### Small-Scale Enterprises

- Article Warns Rural Enterprises To Be Cautious of Swindles [JINRONG SHIBAO 2 Jul] ..... 29  
Interview With Rural Enterprise Official [NONGMIN RIBAO 21 Jul] ..... 30

#### Foreign Trade, Investment

- Foreign-invested Firms Analyzed in Ningxia [NINGXIA RIBAO 1 Jul] ..... 34  
Fujian Foreign Trade Officials, Businessmen Interviewed [FUJIAN RIBAO 13 Jul] ..... 36  
Success of Fujian Investment Drive in Hong Kong Reported [FUJIAN RIBAO 2 Jun] ..... 37  
Fujian To Woo Foreign Investors in Hong Kong [KUANG-CHIAO CHING 16 May] ..... 38  
Article Urges Increased Understanding of IPR [ZHONGGUO MAOYI BAO 14 Jul] ..... 39  
New Border Trade Strategy Urged for Heilongjiang [BOHAI SHANGBAO 19 Jul] ..... 41  
Xiamen Experience With Foreign Role in Banking [GUOJI SHANGBAO 23 Jun] ..... 43  
Regulations on Foreign Investment in Airlines [GUOJI SHANGBAO 6 Jul] ..... 44  
Article Views Liaoning's Overseas Investment [LIAONING RIBAO 19 Jul] ..... 45  
GUOJI SHANGBAO Views NAFTA [16 Jul] ..... 46  
Liaoning Official Discusses GATT Accession [BOHAI SHANGBAO 19 Jul] ..... 48

#### Economic Zones

- Officials View Future, Role of Special Economic Zones ..... 51  
Shenzhen Official on 'New Superiority' ..... 51

Official Discusses 'Creating a Hong Kong' [SHENZHEN TEQU BAO 3 Jul]	52
Official Explains 'SEZ Superiority' [SHENZHEN TEQU BAO 6 Jul]	54
Shenzhen Economic Bureau Outlines Industrial Development [SHENZHEN TEQU BAO 20 Jul]	57

## Labor

Imbalance Between Labor Supply, Demand [ZHONGGUO GUOQING GUOLI 28 May]	58
Labor System Reform Aims at Promoting Modern Labor Markets [ZHONGGUO WUZI BAO 13 Jul]	60

## Agriculture

Anhui Experience With Grain Deregulation [JINGJI CANKAO BAO 29 Jun]	62
Jilin Corn Export Measures Reported [JILIN RIBAO 14 Jul]	63
Jiangsu's Farm Supply Problems [XINHUA RIBAO 1 Jul]	64
Heilongjiang Adopts Barter Trade Measures for Grain [HEILONGJIANG JINGJI BAO 18 Jun]	66
Sichuan, Anhui Report Wheat Storage	66
Sichuan Wheat Storage [SICHUAN RIBAO 3 Jul]	66
Anhui Wheat Storage [JINGJI CANKAO BAO 7 Aug]	67
Shanxi Reports Summer Grain Output [SHANXI RIBAO 24 Jul]	67
Review of Cotton Deregulation Policies [ZHONGGUO NONGCUN JINGJI 20 Jun]	67
Measures on Fertilizer Prices [ZHONGHUA DISAN CHANYE BAO 20 Jun]	75
Measures To Improve Guizhou's Livestock Industry [GUIZHOU RIBAO 16 Jun]	76
Guizhou New Wheat Varieties [GUIZHOU RIBAO 5 Jun]	78
Ramie Procurement Prices Increase	78
1993 Procurement Price [ZHONGGUO FANGZHI BAO 8 Jul]	78
Reasons for Increase [XINAN JINGJI RIBAO 10 Aug]	79
National, Jiangsu Wheat Procurement Reported	79
National Wheat Procurement [JINGJI RIBAO 17 Jul]	79
Jiangsu Wheat Procurement [XINHUA RIBAO 20 Jul]	79
Update on Shanghai Procurement Tasks [NONGMIN RIBAO 20 Jul]	79
Soybean Shortages Forecast for 1994, 1995 [JINGJI CANKAO BAO 22 Jul]	79
Guizhou New Rapeseed Variety [GUIZHOU RIBAO 28 Jun]	79
Sichuan Planned Late Autumn Grain Area [SICHUAN RIBAO 11 Jul]	80
Xinjiang Crop Area for 1994 [NONGMIN RIBAO 30 Jul]	80
Heilongjiang Grain, Edible Oil Industry [HEILONGJIANG RIBAO 10 Jul]	80
Survey of Fujian Individual Grain Business [ZHONGHUA DISAN CHANYE BAO 14 Jul]	82
Shaanxi, Anhui Livestock Industry Develops	83
Shaanxi Livestock Industry [SHAANXI RIBAO 13 Aug]	83
Anhui Hog Stocks [ANHUI RIBAO 3 Aug]	83
Tax Rules on Cotton Imports [ZHONGHUA DISAN CHANYE BAO 20 Jun]	83
Guangxi Sows Late, Hybrid Rice [GUANGXI RIBAO 17 Jul]	84

## SOCIAL

Challenges Facing Civilian-Run Elementary, Middle Schools [ZHONGGUO JIAOYU BAO 23 Jun]	85
Worsening Health Problems of Elderly in Countryside [ZHONGGUO SHEHUI BAO 28 Jun]	86
Classification of Bank Swindles [RENMIN GONGAN BAO 26 Jul]	87

## MILITARY, PUBLIC SECURITY

Profile of Chengdu MR Commander Li Jiulong [KUANG-CHIAO CHING 16 Jul]	89
Focus on Guangzhou MR Rapid-Reaction Unit [NANFANG RIBAO 21 Jul]	91

## TAIWAN

Editorial on Interior, International Financial Situation [CHING-CHI JIH-PAO 28 Jul]	94
Land Sales as Means To Eliminate Deficits Opposed [CHING-CHI JIH-PAO 27 Jul]	95
Industrial Growth Rate Higher Than Export Rate [CHING-CHI JIH-PAO 28 Jul]	96
National Intelligence Chief Profiled [TZULI WANPAO 10 Jul]	96

Scholar Opposes ARATS-SEF Talks [TZULI WANPAO 26 Jul]	98
---	----

## HONG KONG, MACAO

Approval Rating of Governor Patten, Director Zhou [MING PAO 8 Jul]	100
Political Orientation of Liberal Party Disclosed [MING PAO 6 Jul]	100
Voters Disgusted With Party Politics [MING PAO 12 Jul]	101
'Alliance of Chinese, Expatriates' Chairman Interviewed [TANGTAI 15 May]	102
Constant Emergence of New Political Parties Explained [TANGTAI 15 May]	103



## National Affairs, Policy

### Impact on Local Economy of Major Reforms in 1994

94CE0592A Beijing JINGJI YU GUANLI YANJIU  
[RESEARCH ON ECONOMICS AND  
MANAGEMENT] in Chinese No 3, 8 Jun 94 pp 48-50

[Article by Miao Helin (4924 0678 2651), Mayor of Jingmen, Hubei: "Impact on Local Economy of Several Reforms in 1994, and Suggestions About It"]

#### [Text] I

A series of major taxation, finance and banking, investment, and foreign trade reforms that China will conduct during 1994 provide unprecedented opportunities for local economic development. These reforms will help wipe out local separatism to produce a unified nationwide market. This will provide a fine market environment for enterprises following a turn for the better and organization building. These reforms will give full expression to the leading position of the market. They will effectively stimulate and stir local interest in development of the economy in an effort to increase fiscal revenues. They will help local jurisdictions mount large scale projects, good projects, and key projects. In particular, some national, provincial, and municipal projects that have won bids can be developed quickly for an improvement of the economic structure. They will help enterprises meet the new requirements that "GATT re-entry," orienting toward the international marketplace, taking part in international market competition, and developing an externally oriented economy, etc. require. However, they will also pose grim challenges for development of the local economy. During the period of change from the old to the new system, reform will unavoidably cause some temporary or transient negative effects. Only by facing squarely and overcoming these negative effects can the local economy score greater advances.

The negative effect on the local economy of these several major reforms may be capsulized as follows.

**1. The Effect on the Local Economy of Taxation System Reform.** One very important goal of taxation system reform, in which tax sharing is a feature, is to increase the central government percentage of all fiscal revenues so as to enhance the central government's macroeconomic regulation and control capabilities. Therefore, a tax law that "protects local vested interests" is an empty promise for many local jurisdictions. First, tax sharing assigns to local governments just a small part of most major kinds of taxes, and a large part of small kinds of taxes. Local revenues come from fragmentary and scattered sources that provide little growth elasticity. Revenue from the agricultural tax, and the tax on cultivated land takeovers, which have been assigned to local governments, cannot increase in any real sense. They may even decline. Water resources fees, waste removal fees,

and urban construction taxes not only do not provide much revenue, but they cannot be reallocated. Any hope of increasing fiscal revenues depends most on the income tax. Second, once tax sharing has been instituted, the income tax will be collected level by level. The central government will collect the income tax from central government enterprises, and local governments will collect the income tax from local government enterprises. Not only will this decrease local government revenues, but it may have a negative effect in that it may cause central government enterprises to stimulate local enterprises less, thereby weakening the bonds between the two. It may also cause local jurisdictions to provide insufficient support for central government enterprises in their areas of jurisdictions, a circumstance that may hurt the enlivening of central government enterprises in local jurisdictions. As a result of the reduction in fiscal revenues, local governments' regulation and control capabilities will also become weaker causing a corresponding weakening of support for local enterprises. Enterprises' technological transformation, their ability to manage social burdens, their ability to augment working capital, etc. will all be adversely affected. Third, the tax sharing system abolishes the former system of using the base figure method's added factor method for arriving at local government expenditure base figures. It changes local government financial resources in 1993 as the basis for figuring future expenditure base figures. It does not take into account present or future fiscal deficits, all of which local governments must digest themselves. For some local governments already carrying substantial fiscal burdens, this is adding insult to injury. If this situation continues, not only will it be fundamentally impossible to digest past deficits, but it will be even impossible to ensure new policy-mandated increases in expenditures such as those that wage reform requires. In addition, retraction of local government authority to allow tax reductions or exemptions, and the cancellation of various tax reductions and exemptions such as for new products, for hardships, and for various policy reasons hits hard at struggling enterprises and enterprises that are losing money. The development of some established enterprises that no longer obtain special protection or policy preference will also be substantially impaired.

**2. Effect on the Local Economy of Finance and Banking System Reform.** First, once the specialized banks become commercial banks, control over the total amount of credit for enterprises will be abolished. The banks will provide credit for the support of key projects and for policy reasons. The banks will select the enterprises to receive credit on the basis of their creditworthiness and their economic returns. Some lines of business, and enterprises that make good returns will receive more credit. However, enterprises having special difficulties that are unable to receive timely policy support will see their burdens increased. Some enterprises whose returns are not good because they serve a public welfare or policy function, as well as some state-owned enterprises that

depend on credit given for policy reasons, such as cotton textile, chemical industry, and mining enterprises, will find greater difficulty in getting money from the banks. Their predicament will worsen. Second, since each of the specialized banks provides credit as savings deposits permit, the greater the deposits the greater the credit within certain limits, restrictions on the size of the economy will affect the amount of savings, savings accounts becoming smaller, and consequently less credit will be given because of the reduced savings deposits. This will mean a widening of the gap between areas lagging in economic development and economically developed areas.

**3. Effect on the Local Economy of Investment System Reform.** Henceforth large scale investment in infrastructure, basic industries, and key products will be the responsibility of the newly founded Development Bank. Other banks will no longer be able to handle investment in fixed assets on this scale. However, the Development Bank has only a head office, and getting a loan from it requires a complex process. Furthermore, the amount of credit that any given area can obtain is very limited. However, the infrastructure in areas lagging in their development is rather antiquated, and basic industries are relatively weak. They require a large increase in investment. Their present dependence on bank loans to make up for the shortfall in money they raise themselves is suffocating them. Inevitably the development of basic industries such as local transportation and energy is hurt. This leads to greater weakness and greater antiquation of the infrastructure in areas lagging behind in development. Their economic development is slower and straggling. Furthermore, reform of the investment system requires a reassessment of examination and approval limits for projects now under construction and for projects for which approval is to be retracted. This will hurt local jurisdictions' ability to mount new projects. Some already approved technology transformation projects will have to be reassessed. Possibly the number of such projects will be reduced. In particular, some projects whose social benefits are good but whose economic returns are not marked may be hurt. Difficulties will increase for some areas having a poor foundation, and for the commencement of industry-organized projects.

**4. Effect on the Local Economy of Foreign Trade System Reform.** This reform will likely hurt export growth. Following trade system reform, the preferential interest rates that the state gives foreign trading firms will be abolished, and preferential policies will be revamped. This will lead to a rise in foreign trade enterprises' costs of doing business. Reduction and abolition of non-tariff measures will mean a surge into China's markets of large quantities of premium quality, low priced foreign goods. Domestic and foreign enterprises will compete from the same starting line. Many domestic industries, notably electronics, chemicals, and machinery will be fairly severely threatened in the short run. Difficulties in maintaining a balance between imports and exports will

increase, and containing the adverse international balance of payments will be difficult. Third, because of the conditional free exchange system by which units using foreign exchange money at the market rate in banks when they need it for trade, large numbers of three kinds of partially or wholly foreign-owned enterprises may buy foreign exchange at banks. Because of the strong purchasing power of three kinds of partially or wholly foreign-owned enterprises, a substantial amount of foreign exchange may flow in their direction. At the same time, their motivation for exporting will decrease. However, because of their lesser ability to compete, domestic enterprises will be in an unfavorable position.

## II

Moving the economy a step upward will require maximizing strengths and minimizing weaknesses, energies going to the elimination of the negative effects of reform. Right now, special attention must be paid to the handling of the following several relationships.

**Correct Handling of the Relationship Between the Central Government and Local Governments** Attention must be focused on making the most of the initiative of both the central government and local governments. When the central government has too little power, it cannot easily exercise macroeconomic regulation and control. This produces chaos throughout economic life. But going too hard on local governments and holding them down too much can produce apathy and be counterproductive. We must use the principle that Comrade Jiang Zemin expressed of "overall interests must be overriding, and local interests must be subordinate to overall interests" in dealing with the interest relationship between the central government and local governments. Numerous means may be used to bind together closely the interests of both parties to permit full arousal of the initiative of both. In tax sharing, for example, this applies to combining the state-owned enterprise income tax with the central government enterprise income tax, and putting them together with the value added tax to be divided up for the joint benefit of the central government and local governments. This will substantially eliminate the barriers between higher and lower levels, and enterprises subordination relationships. It will help promote development of local enterprises, and it will particularly help promote local government concern for the development of central government enterprises. At the same time, a local tax collection system must be set up and perfected as quickly as possible. Revival of the banquet tax, the interest income tax, the special cultural and entertainment tax, the inheritance tax, and the gift tax can play a role in expanding local tax revenues while simultaneously redistributing social wealth rationally. As new forms of economic or social behavior occur in the process of developing the market economy, some new forms of local taxation can be used to regulate or restrict it, such as a tax on pets, or a securities trading income tax. Furthermore, in the process of reforming the finance and banking, and the investment system, the establishment and development of financial institutions such as



local banks, urban credit cooperatives, rural funds, and enterprise financial corporations should be encouraged rather than restricted, and the pace of share system reform accelerated so that enterprises will turn to the market for financing. This can change the narrow and undiversified channels that local enterprises use to obtain money, thereby setting up and perfecting a local investment system.

**2. Correct Handling of the Relationship Between Market Orientation and Government Regulation** These several major reforms are in the category of market reforms, the goal of which is make the markets play a basic role in the allocation of resources. This is necessary for the founding of a socialist market economy system. However, government regulation is necessary to remedy and overcome negative factors in the market such as reflex action, haphazardness, and sluggishness. This is also an objective requirement for accelerating development of the socialist market economy. In the course of carrying out these major reforms, attention must be given simultaneously to the roles of market orientation and government regulation, maximizing strengths and minimizing weaknesses to accelerate development. Once policy banks and commercial banks have been set up separately, the departments concerns must strictly define the clients each will serve. They must actively study which clients the policy banks are to support, draw up the laws and regulations needed to support them, set up applicable supervisory agencies, and standardize the professional actions of the policy banks and the commercial banks in order to operate truly according to market economy laws. National and local projects in urgent need of development, and those projects in keeping with the economies of scale, that can make a good return, and whose technology is at a high level should be raise more of their construction money on the market. National policy support and the establishment of stable funding channel will assure rapid development of the infrastructure and the basic industries that the state and local government emphasize. Key construction projects in principal industries should be permitted and encouraged to arrange financing in domestic and foreign markets, the principle of survival of the fittest operating to overcome problems in these industries of small scale and dispersed investment, and redundant, small scale investment. For industries of a public welfare nature, or whose returns are not good for policy reasons that are located in hardship areas or areas that lag in development, the finance and banking sector must provide credit preference to support and help them develop and grow strong. In trade system reform, opportunities must be seized, and a major effort put into exports. In particular, industrial more consumer goods for which the country has excess production capacity should must be promoted in international markets. Authorities at all levels must continue to support vigorously the development of an externally oriented economy. Banks must support foreign trade enterprises' needs for procurement funds, tax units must make tax returns promptly, and power and

water supply units must give priority to the needs of export enterprises. In addition, imports must be restricted appropriately. Special attention must be given to halting the fad for keeping up with the Joneses in buying small foreign sedans. These measures can reduce and avoid an adverse balance of payments in foreign trade, and ease foreign exchange balance pressures. In short, only active participation in government regulation can promote and intensify reforms in which the market plays a greater role.

**3. Correct Handling of the Relationship Between Accelerating Reform and Stability and Development.** Development is the goal; stability is a prerequisite, and reform is a means. Without the prerequisite and the goal, reform has no meaning at all. The several major reforms should also promote development and safeguard stability insofar as possible. First, various kinds of coupling mechanisms for reform should be set up and perfected. The several successive major reform measures inaugurated must generate a widespread and profound effect in all fields—social, political, and economic. If the relationship among various system reforms is not handled well, these measures may get in the way of each other, cancelling each other out. In order to ensure smooth progress in reform and healthy development of the economy, all the reformed must be dovetailed with each other to reduce friction among reform programs so that reform plans can be conducted smoothly and advance each other. Second, reforms must be conducted in an orderly way at a steady pace. In order to ensure success with key reforms, it is suggested that overall planning be done that takes account of other reform programs planned for inauguration in 1994. This should be done to prevent the inauguration of too many reforms too abruptly, thereby causing too great opportunity costs and a superimposition effect, and results that fall short of expectations leading to tumult in economy life. Finally is efforts to reduce enterprises' burdens and enhance their ability to withstand shocks. The authorities concerns must conscientiously formulated transitional measures for enterprises to change from the contract system to a new taxation and profit distribution system. Various methods must be devised to help enterprises solve debt burdens of historical proportions. Major efforts must be made to halt the three unjustified [unjustified assessments, unjustified fee collections, and unjustified raising of money. During the several major reforms now underway, all possible must be done to prevent local government or departments concerned from shifting burdens to enterprises. In addition, as enterprise reform intensifies, enterprises will increasingly hire manpower only if it produces a return. Large numbers of unneeded personnel will be filtered out. Thus, social security system regulations and laws must be studied and drawn up with all possible speed. A beginning must be made in setting up a social security system and putting it on a sound footing to create a stable social environment for smooth conduct of reform, and to provide good conditions for rapid development of the economy.

### Provincial

#### Economic Development Plans for Jiangsu

94CE0560A Nanjing JIANGHAI XUEKAN [JOURNAL OF JIANGHAI ACADEMIA] in Chinese No 3, 10 May 94 pp 17-22

[Article by Tang Jian (0781 1696) Office for Research under the Jiangsu Provincial People's Government: "Jiangsu's Market Development and Economic Development"]

[Excerpt] [passage omitted] To accelerate economic modernization, it is necessary to establish a socialist market economic system

The 1990s are the crucial period for promoting economic modernization in Jiangsu. The so-called modernization means a process in which people of all social strata had undergone or are undergoing changes with the impetus of the new technological revolution. Its characteristics include sustained economic growth, increased dependence on the world community for existence, relatively higher priority given to the development of nonagricultural sector such as the manufacturing industry and the service industry, even more equitable distribution of income, changes from higher birth and mortality rates to lower ones, multiplication and specialization of all kinds of organizations and technologies, scientific administration, active participation in government and politics, educational development at all levels and improvement of life style, ideas and concepts and social ethics and so on. It can be seen that modernization is a process of overall changes including economic, political, cultural and social modernization of which economic modernization is of fundamental significance. To judge economic modernization, we must not only pay attention to the growth rate of both total and average economic quantities but also qualitative indicators such as the state of affairs in economic operation, the evolution of economic structure, the development of social division of labor, the progress in opening up in the field of economy and the improvement of living standards. Also, economic modernization is more successfully accomplished by undergoing changes in these fields.

Therefore, the tasks to achieve economic modernization in Jiangsu in the 1990's should be as follows: We should work hard to catch up with developed countries and regions and maintain sustained and rapid economic growth. Jiangsu has already set its economic growth rate in the 1990's to approximately 12 percent. If we develop ourselves on this basis, we will achieve our second-stage strategic goal by the year 2000 or several years ahead of schedule. Some areas in southern Jiangsu where conditions permit may even meet the basic requirements for modernization ahead of time. The question is that we must try to reduce economic fluctuations and lengthen the period for high-speed growth. We should work hard to improve our industrial structure, and bring about changes in our leading industries. By the end of this

century, the composition of the primary, secondary and tertiary industries should be adjusted to 13:49:38 of which the tertiary industries in urban areas should exceed 50 percent and the industrial structure should be changed from 2-3-1 to 3-2-1. We must extensively apply modern technologies and noticeably increase the amount of contribution made by technological progress to economic growth. We should go through the transitional period of changing labor- and fund-intensive industries into capital-, technology- and knowledge-intensive industries; energetically apply high and new-technologies to industries; and raise the contribution rate of technological progress economic growth from 30 percent at present to approximately 50 percent. We must regard economic internationalization as our target and depend more on foreign trade in developing our economy. We should raise our total volume of import and export to more than 45 percent of our GNP, of which the amount of foreign currency earned by exporting goods should exceed 30 percent and the ratio of foreign capital in the total amount of investment in fixed assets be raised to approximately 20 percent. We should register relatively rapid progress in making investments abroad and carrying out multinational business operation, and actively export our labor services. We must try to promote urbanization, further quicken our pace in shifting our surplus manpower in agriculture and our rural population to the cities, and strive to achieve our goal of raising our urban population to about 40 percent and lower our rural population to less than 30 percent in Jiangsu by the year 2000. We must try to help the people in the province to become well-to-do in general and support production by encouraging consumption. We should strive to help urban workers raise their per capita income to approximately 10,000 yuan and help peasants increase their per capita net income to approximately 5,000 yuan by the end of the century, up two and four times respectively.

The basic way to achieve the aforementioned goal is to carry out the strategy of promoting intensive management and international operation. Jiangsu is faced with a new environment and new conditions in the development of its economy since it enters the 1990's. As far as the international environment is concerned, the sense of trade protectionism is growing stronger and stronger in each passing day with the gradual formation of the pattern for political and economic polarization in the world. The fact that the gravity of economic growth is shifting to the Asian-Pacific region and China's return to GATT will provide us with an unprecedented opportunity to merge ourselves with the world economic system. As far as the domestic environment is concerned, the competition among various regional economic sectors for resources and a share of the market is becoming more fierce than ever before, while our economy is rapidly growing in an overall manner, the reform program is being developed in depth, and our country is opening wider to the outside world. Meanwhile the development and opening up of Shanghai's Pudong area by the central



authorities and the major strategy in accelerating economic development in areas along the Yangtze River will provide us with an unprecedented opportunity to attain new prosperity in the Yangtze River Delta and promote Jiangsu's economy. From Jiangsu's environment point of view, a new situation of high-speed growth and overall development in carrying out reform and opening up to the outside world has prevailed in the economic field in the province. Meanwhile, Jiangsu's economy is faced with a series of new changes and requirements. In order to keep pace with the rapid growth in the total economic quantity and the per capita income, we must replace agriculture, light, and textile industries with heavy and chemical industries and the tertiary industry as our key industries for economic development. To deal with the situation whereas we now have more consumer goods than we actually need and attain a sustained growth, we should strengthen the construction of infrastructural facilities, form a flexible structure of production and open up new consumer markets instead of increasing the supply of necessities. To cope with the increasing shortage of natural resources and high labor costs, we should divert our attention to making technological progress and improving our organizational system instead of making more investments to expand reproduction in the manufacture of necessities. To raise funds and acquire techniques for building basic industries and developing high and new technologies, we must pay attention to promoting export-oriented economy and attaching importance to both self-accumulation and foreign investments instead of mainly relying on ourselves like what we did in the past. In order to meet all these requirements, we must carry out intensive management and engage in international operation. This is the crux in helping Jiangsu seize the opportunity and meet the challenge in the new round of fierce competition. This will help Jiangsu utilize all its favorable conditions such as its strong economic foundation, its effective market regulation and its vigorous opening-up program to once again play a leading role in the country, to gain the upper hand in the new round of competition and to quicken its pace in the development of economic modernization.

To administer a new strategy for development, we must accelerate the construction of our socialist market economic system, because whether or not we may attain the expected results in executing this strategy depends on whether such strategy conforms with the objective reality or not. Even more important is the fact that whether or not we have an economic system which insures a rational allocation of resources. The major problems in Jiangsu's economic activities are closely connected with extensive management. Meanwhile, we are unable to execute this strategy promptly because we are restrained by the dual-track system. Thus, we must combine our efforts to carry out intensive management and international operation with the market economic system, because during the period of intensive management, many interest groups have already been formed and their ties with the

world market has become closer due to the considerable shortage of resources, increasingly complicated economic structure, even more diversified social demands and a more healthy market growth. If we adopt more administrative orders and methods of centralized planning, we would delay the process of modernization. On the other hand, if we implement the market economic system, we may allocate, on a priority basis, the scarce resources to industries and enterprises which must be speedily developed under the macroeconomic-control of the state. We may help enterprises become market-oriented in carrying out production and doing business, prevent them from carrying out their economic activities blindly and consciously maintain an overall balance between production and consumption. We may bring about fair competition among different economic sectors and different economic entities; help increase the number of entrepreneurs; popularize the use of advanced science and technology in various industries; develop the scale economy; and make the best use of assets. We may rationally evaluate the performance of the enterprises and workers by judging how they satisfy the needs of the society; and adjust the benefits among the interest groups so as to whip up their enthusiasm in doing business. We may carry out economic activities according to international practices, make our regional economies truly mix up with the world economy, and finally achieve our goal to accelerate our economic development by raising our efficiency and our people's living standards.

As a province, Jiangsu should select a pattern and reform strategy suited with its own characteristics within the general frame set up by the central authorities for the development of socialist market economic system. To draw on the experience of the developed capitalist countries is of great significance in establishing the modern market economic system with the characteristics in Jiangsu. Right now, relatively ideal patterns for the development of market economy are British and U.S. patterns, the German pattern and the Japanese pattern. Among these three patterns, what they share in common is the fact that the market plays the fundamental role in allocating resources in a coordinated manner. What they differ with one another is the fact that the government uses different forms and pressure in controlling the economy. In carrying out reform, Jiangsu should learn more from the experience of the Japanese pattern and the merits of the four Asian Little Tigers in developing the market economic system under the guidance of the government.

As an objective model, the market economic system under the guidance of the government is composed of several mutually interrelated subsystems: 1) It is the main market formed by various economic sectors and composed of enterprises with corporate equity and the mechanism to assume sole responsibility for profits and losses and make their own management decisions. These enterprises have free access to the market; and they compete with one another on an equal basis. 2) It is the



unified competitive market composed of the parameters of the market system and market prices. From the market system point of view, it is an unity of commodity market and the production elements market, an unity of spot market and futures market and an unity of the market in Jiangsu on the one hand and the markets in other provinces in China and the international market on the other. From the point of view of the price formation mechanism [jia ge xing cheng ji zhi 0116 2706 1748 2052 2623 0455], the prices of commodities and production factors affected by market competition play a significant role in regulating the enterprises' behavior, the market supply and demand and the allocation of resources. 3) It is the system of macroeconomic control and regulation mainly exercised by the government. It is composed of the system with the nation's development plan and industrial policy as the core and the system of government macroeconomic regulation. This is an important system aimed at insuring the market economic operation and achieving the government target for development. 4) It is the system of social security and the various types of intermediary social organizations jointly built by the government, by enterprises and the consumers or by nongovernment organizations. The former plays the role of social stabilizer, while the latter plays the role of strengthening the relations between the government and the enterprises, between macroeconomic regulation and market activities and among the various enterprises. 5) It is the system of law and regulation and the system of social supervision. The aforementioned five subsystems form the overall frame of the new system with the enterprises as its main body and with the price formation mechanism which competes for supply and demand as its foundation. The system of macroeconomic control and regulation under the guidance of the government, the social security system and the system of law and regulation serve to supplement and strengthen this foundation. In order to suit such needs, the relations of ownership should show the characteristics of diversifying main ownership entities and property rights.

In establishing the new system, we must change our practice of making an unreinforced breakthrough and replace it with the strategy of coordinating and supporting one another. In coordinating with others horizontally for the development of the reform program, we must do a good job in coordinating the relations among reform, opening-up and development, and achieve the goal of pushing all three forward in a coordinated manner with priority given to economic reform. We must do a good job in coordinating the relations among enterprise reform, building of market system and development of macro-control mechanism; and achieve the goal of strengthening their interaction with emphasis on the reform of state-owned enterprises. From the point of view of vertical coordination, we may divide the entire process of reform into two stages of merge and improvement. We must basically merge the dual-track system within a period of three to four years between now and

the end of the century, and spend five to ten years from the beginning of the next century to completely set up the new system. During the stage of merge, our main tasks will include the establishment of the system of property rights, the organizational form of state-owned enterprises and the macro-control and social security systems of the provincial government, which are compatible with the requirements in the development of the market economy. We must straighten out market parameters, develop the market of production factors and establish a unified market system for fair competition and its price formation mechanism. We must readjust the structure of the ownership system and pay particular attention to increasing the ratio of the economy of mixed ownership and the private economy. We must also set up the system of law and regulation, which conforms with the development of market economy and dovetails with international practices.

#### **Hunan Party Secretary Views Economic Development**

94CE0590A Hong Kong KUANG-CHIAO CHING  
[WIDE ANGLE] in Chinese No 261, 16 Jun 94  
pp 42-48

[Interview of Hunan Party Secretary Wang Maolin by staff at Furong Hotel in Changsha on 22 May entitled "Accelerating Development in Hunan - A Discussion with Wang Maolin"]

[Excerpt] Hunan Communist Party Secretary Wang Maolin responds in detail to reporter's questions on issues of concern to Hong Kong people such as "the guest workers' tide," the "Hunan gang," anti-pornography and corruption, Hunan-Guangdong relations, and key issues in accelerating development in Hunan.

#### **An Exclusive Interview with Party Secretary Wang Maolin at the Furong Hotel**

Nine months ago, on September 25 1993, Chinese Communist Party Central Committee member and Party Secretary of Shanxi Province, Mr. Wang Maolin, was reassigned as Party Secretary of Hunan Province. On the morning of May 22, 1994, this writer conducted an in depth interview with Secretary Wang Maolin at the Furong Hotel in Changsha.

After nine months of diligent effort in Hunan, Wang Maolin feels deeply that Hunan is a good place, with great potential and great hope.

**Arranging Hunan's future based on the Characteristics of the Province** He said that at this time Hunan particularly needs publicity to allow outsiders to have a better understanding of Hunan.

Wang Maolin is a leader with keen sensitivities. At this time, he is making arrangements to improve the current and future situation in Hunan, based on the particular characteristics of the province.

Secretary Wang says Hunan has developed especially rapidly during the last few years. Economic progress has been especially great after Deng Xiaoping's Southern Tour speeches. The growth in GDP in the last two years has been over 12 percent. From January through April of this year, the GDP of the entire province was 31.5 billion, a 9.4 percent increase over the same period of last year.

#### **A Major Agricultural Province in an Important Position**

Hunan is a major agricultural province, with an important position in China. It is the largest producer of rice in China, producing 10 billion jin of rice each year. It is second only to Sichuan in production of pigs, with 37 million pigs on hand at the end of the year. It produces 72,800 tons of tea each year, the second in the nation. It is the largest producer of ramie in the country.

In 1993, the agricultural GDP of Hunan was \$6.347 billion, 5.3 percent higher than the previous year. Grain production totaled 26.21 million tons (52.6 billion jin). The province consumes over 40 billion jin of grain. A large amount of commodity grain is supplied to Hong Kong, Shanghai, and Guangdong. While nationwide cotton production was in a major decline last year, Hunan's production climbed steadily, producing 210,800 tons (4 million dan) [one dan equals 50 kilograms] last year. It is estimated that production this year will reach 6 million dan (300,000 tons). The near-term goal is 10 million dan.

Aquacultural production has also developed rapidly. Freshwater cultivation production reached 700,000 tons last year. Freshwater fish and bullfrog production has grown especially fast. The Hunanese know how to farm. This is something recognized throughout the country.

Industry also has a definite foundation in Hunan. Steel production last year was 2.21 million tons. The metallurgy industry stands out among the interior provinces. Raw coal production is over 4.4 million tons, which puts Hunan among the top eight producers of coal in the country. In construction materials, cement is over 17 million tons, and there is a definite foundation in the basic construction industry. The production of generators and electronic equipment has leapt by ten percent each year. Village and township industries grew last year at the phenomenal rate of 69 percent. The GDP for all of last year was over 110 billion yuan, and Hunan ranked 11th in the country in comprehensive economic strength.

During the past two years, the pace of opening to the outside in Hunan has also increased. Import and export trade has reached 2.35 billion U.S. dollars, 13.1 percent more than last year. Exports totalled 1.611 billion U.S. dollars, up 1.2 percent, and imports increased 10.8 percent to 739 million U.S. dollars.

The use of foreign investment has also yielded fortuitous results. 1,491 contracts were signed in the province with

foreign investment last year, for a total of 1.24 billion U.S. dollars. As of the end of 1993, the number of three types of investment enterprises [joint ventures, cooperative enterprises, and sole-foreign investment enterprises] registered totaled 2,368, or 1,344 more than in 1992.

Hunan is a major agricultural province and is also a major cultural province. Hunanese culture has a unique position in modern and contemporary Chinese history. In modern history, Hunan has contributed leadership figures such as Mao Zedong, Liu Shaoqi, Ren Bishi, He Long, and Peng Dehuai. Quite a few generals in the Chinese Communist army have been Hunanese. "One cannot form an army without Hunan." Of the 10 great marshals commissioned in the 50's, three were from Hunan. Six out of ten top generals are Hunanese. Nineteen generals are Hunanese. Many high-ranking officers currently serving, including the commanding officers of the 42nd army familiar to Hong Kong people, are from Hunan. Many famous figures in modern Chinese history, including Zeng Guofan, Zuo Zongtang, Tan Sitong, and Huang Xing are all from Hunan. One can say boldly that there is no way to study modern Chinese history without including Hunan.

#### **How To Effectively Accelerate Development in Hunan?**

Wang Maolin says the current problem is how to accelerate development in Hunan so that Hunan can quickly proceed down the path of modernization in the near future.

He says that because Hunan is a major agricultural province, effective means must be used to develop the processing of agricultural by-products to make this a major food products province and increase the high added value of these products. For example, hybrid rice is to be used to increase production and packaging rice in small packages to stimulate export competition.

Hunan also must develop its great culture. It has great cultural and tourism resources. The Hunan culture should be developed, to use the ancient in modern ways and develop tertiary industry. For example, Zhangjiajie can be made into a city for international tourism. Much work can be done on this.

Hunan

Secretary Wang continued. Hunan must capitalize on its strengths and avoid its weaknesses. It should take advantage of its unique geographical position, bordering on Guangdong to the South and the Chiang Jiang to the North. By taking the Yueyang toward the ocean, one can go all the way to Pudong and on out to overseas. For this reason, the Hunan Provincial Communist Party Committee and the Hunan Provincial Government have established a development strategy, with the four following specific statements.

**Open Up Ports to the North and the South** (open up the southern edge of Hunan bordering on Guangdong and Yueyang City to the North)

**Widen Three Highways** (The Route from the Beijing-Guangzhou rail line to Nantong, the route from Dongtinghu along the Chiang Jiang to the Ocean, and the route along the Hengyang-Youyiguan rail line and the Zhiceng-Liuzhou rail line to Beihai.)

**Construct Five Districts and One Corridor** (The five districts are Yueyang, Changsha, Zhuzhou, Xiangtan, and Hengyang, and a new high tech corridor should be created to become Hunan's "Pearl River Delta.") **Accelerate the Opening of the West** (Accelerate the work of opening up the western mountainous region of Hunan with Huaihua Mountain area as the focal point)

Wang Maolin emphasized that the gates to the North and to the South must be linked together to attack to the North and to the South. Southern Hunan will be linked to Guangdong and the North and South will be linked together in steps. There must be a comprehensive opening up with some key places at the forefront. At the same time the disparity between the East and the West in the province must be resolved.

Wang Maolin pointed out that it must be admitted that the economic disparity between Hunan and Guangdong is growing. Our goal, however, is not for Guangdong to stop and wait for us to catch up but the key is to push ourselves forward. First we must let the key places lead the way and develop first the five cities with the strongest qualifications.

#### **Developing Transportation Is a Key**

In order to obtain these breakthroughs, Hunan must resolve the problem of transportation and establish a three-dimensional system of smooth conduits for water, ground and air transport.

**Air transport:** The Huanghua Airport in Changsha must continue to be expanded. After routes to Shanghai, Beijing, Guangzhou and Shenzhen are opened up from the Zhangjiajie Airport in July, we must make every effort to establish a route from there to Hong Kong by the end of the year.

**Highways:** The highway circulating Changsha should be expanded. Every effort should be made to complete the 570 km of highway in Hunan on the Beijing-Guangzhou Highway within five years. In the future, a network of perpendicularly intersecting roads will be established with wider roads and improved road surfaces to accelerate transportation and transport of goods in Hunan.

**Shipping:** Hunan is an inland province, with no seaports, but a man-made waterway could be constructed to connect to the sea via the river system. The Chenglingji Wharf in Yueyang is several hundred years old. We have a fleet of ocean-going ships in Shanghai. 5,000 ton ships can navigate from Shanghai to Yueyang. From the Chenglingji Wharf in Yueyang, ships can travel down the Chiang Jiang and the Huangpu directly to Hong Kong, Taiwan, Bangkok, or Korea, or overseas.

There is also a need to develop western Hunan, to do a good job in agriculture, and to strengthen the vitality and effectiveness of state-owned large and mid-sized enterprises. From now on, Hunan will increase efforts in five areas, to develop individual economies, rural enterprises, tertiary industry, three types of investment enterprises, and high tech enterprises.

Agriculture in Hunan has great potential. From now on, we will make greater efforts in the hilly areas. More fruits can be cultivated on hillsides. We must use the waterways to develop special varieties of aquaculture products and promote "the results of experience." High quality rice must be planted in the rice fields. The development of forestry products by planting trees and forests must be linked to economic efficiency. Processed forestry products should be promoted to allow peasants in forested areas to achieve early prosperity. The added processing of agricultural products in rural areas should be pushed forward to increase value added to agricultural by-products. The peasants should be induced to enter the market by allowing the peasants to manufacture products which can be sold for a good price. We must establish a great agricultural economy and develop rural enterprise.

#### **Hong Kong Is Hunan's Largest Economic Partner**

Hong Kong is Hunan's largest partner in imports and exports. Wang Maolin says that Hunan's representative organization in Hong Kong, the Sanxiang Company, is Hunan's window in Hong Kong. Sanxiang Company is well run. From now on, the economic power and foundation of the Sanxiang Company is to be expanded.

#### **Attracting the Second Generation of Taiwan Businessmen To Invest in Hunan**

Secretary Wang Maolin said that Hong Kong is close to Hunan. Traveling from Hunan by car, one can reach Shenzhen in seven and one half hours and Hong Kong in nine hours. Hong Kong and the Hong Kong people are familiar and have plenty of capital. There is much close trade interaction and information is shared rapidly. In September of this year, Hunan plans to hold another major activity in Hong Kong to attract business.

Taiwan is also a major partner of Hunan.

In the area of trade to Taiwan, there are many second generation Hunanese offspring of Hunanese politicians and military men in Taiwan who are in business. Many Taiwanese businessmen have come to Hunan recently and indicated a strong interest in investing here. Hunan intends to pay attention to attracting investment from second generation Taiwanese businessmen. Wang Maolin indicated that Hunanese people from Taiwan would be warmly welcomed to visit their homeland and would be given every assistance by their home towns.

#### **Exploring New Ways To Attract Foreign Investment**

Hunan will explore new methods of attracting foreign investment and establish a better mechanism for the



operation of foreign currency funding. This will include accelerating the steps toward establishing a stock system of Chinese and foreign joint investments and utilizing foreign capital to join in the transformation of state-owned enterprises.

Hunan also plans to contract out some key construction projects (such as highways) to foreign companies for a limited time period. The foreign companies will be allowed to operate these projects, thus allowing the capital and management experience of foreign companies to be used to accelerate construction in Hunan.

Hunan also intends to improve the system of services for foreign business, so that foreign businessmen will be able to conduct business conveniently. Work efficiency will be improved and services for foreign businesses will be done well. The legal rights of foreign businesses will be protected.

#### **On the "Hunan Gang" and Prostitution**

This writer asked Secretary Wang about the public security situation in Hunan. Hong Kong people have always had a bad impression of the underworld's "Hunan Gang". What is the current public security situation in Hunan? Is the prostitution and pornography problem really more rampant in Hunan? If this is really the case, what should be done to improve things?

Secretary Wang pointed out frankly, the public security situation in Hunan has improved greatly. It is not only not as bad as some of the Hong Kong media have painted but the effectiveness of recent reorganization efforts has even received praise from central government ministries.

Secretary Wang revealed that the Central Public Security Committee recently visited Hunan to examine the public security situation in rural Hunan. They went to southern Hunan and western Hunan. They did not come only to listen to reports by experts from the local committees and the county and city governments but also to speak directly with the common people about the situation. They spoke with a total of 200 people from the grass roots. They wrote a final report in which they gave confirmation and praise for Hunan's achievements in correcting public security.

Actually, the public security situation in Hunan really has improved greatly. Beginning last October, Hunan has been attacking highway bandits and local bad influences. According to statistics from the first four months of this year, the crime rate in Hunan is clearly lower than that in the neighboring provinces of Jiangxi and Guangdong.

#### **Launching a Summer Offensive To Attack Criminal Elements**

In April of this year, the relevant departments in Hunan launched a summer offensive to attack criminal elements in the cities. Wang Maolin revealed that the so-called

"Hunan Gang" is actually a "Hengyang Gang" but they could not form a gang in Hunan because the underworld cannot gain power there. The Hunan public security organizations recently eliminated 1,800 members from the countryside. Those who had committed criminal acts were not treated leniently. He said that we believe it would be a crime against the people to be lenient with criminal elements who had committed criminal offenses. The common people want to live and work peacefully. There cannot be the slightest carelessness in maintaining social stability and protecting the security of the common people. Attacking local ruffians and bandit chiefs is an action to be taken by the whole of society and we cannot be lax, even in remote mountainous areas.

Secretary Wang said, the relevant ministries of the central government plan to hold a meeting in Suzhou in June of this year on the reorganization of public security. They have invited us to make a presentation at the meeting on Hunan's experiences in reorganizing public security. It can be said that Hunan has done a good job recently in managing public order. Actually the public security and social situation in rural China is not as bad as that reported by some foreign media. Of course we must continue to strive to improve and do an even better job of managing the public security situation.

On the problem of eliminating pornography, Secretary Wang said that beginning this year, there will be no carelessness in correcting the "three accompanies" in the entire province and in strictly wiping out pornography in the culture market. Some articles in Hong Kong have said that there are more nightclubs in Changsha than in Hong Kong. Actually, nightclub names are very fashionable in Changsha, but the establishments inside are not that at all. Recently, my secretary bodyguard and I put on T-shirts and casual clothing and went to observe Huangni Street in Changsha. This is the so-called famous pornographic world. Although there are still some illegal activities there, the flagrant atmosphere is much less blatant.

Secretary Wang feels that several key tasks must be done well in order to eliminate pornography:

- 1) Get rid of pornographic gangs running underground brothels.
- 2) Eliminate their underground transportation lines and transportation networks, including those from other provinces.
- 3) Major criminals must be treated severely and sentenced strictly according to the law, not just fined.

#### **Grasping Two Major Issues in Promoting Honest Government and Opposing Corruption**

Are there incidents of public security organization people linking up with and acting in collusion with criminals? Secretary Wang Maolin said one cannot say that there are none, but the majority of the entire public security troops in Hunan are good. It is possible that one in a thousand of the 17,000 to 18,000 public security employees have colluded with the bandits, participated

in corruption or taken bribes. Policemen also live in society, not in a vacuum, and are influenced by society. Our method is when we find one, we punish that one strictly. At the same time we must do a good job of promoting corruption-free government.

On the issue of opposing corruption and promoting honesty and self-discipline among cadres, Secretary Wang said, in late June and early July, Hunan intends to solicit views in an open door manner, through organizational life. With the provincial committee leading the way, we will get a grasp on the question of an honest cadre system. Any criminal elements caught with solid proof will not be treated leniently.

Wang Maolin revealed that he had a batch of major cases in his hands. There were four cases in it which would be formally submitted to the Supreme People's Court for examination and approval.

On the question of honest government, Secretary Wang incisively pointed out that two issues must be brought under control.

1) There must be controls on authority. If authority is not controlled, it will inflate and create a problem of corruption. All levels of government must be subject to controls on their authority, including authority relating to people, funds, and property.

2) The quality of civil servants and cadres must be raised. Civil servants must not use the authority they control for personal gain.

Recently, the Central Discipline Committee added five new requirements. This will assist Hunan in strengthening honest government. Wang Maolin said Hunan definitely will strictly implement these measures. He also pointed out that the opposing corruption and promoting honesty will be a long-term struggle.

#### How To Correctly View the Hunan Guest Workers

Regarding the "Guest Workers' Tide," Wang Maolin feels that the press should not excessively spread rumors on this. Hunan and Guangdong are neighboring provinces. How is it news that some workers from Hunan go to find work in economically more developed Guangdong? Secretary Wang Maolin raised his own hometown as an example. In one village in my homeland in Qidong County 80 percent of the people flooded to Shanghai in the early years to find work there. The result was that Shanghai was developed. When Hunanese go to work in Guangdong, Guangdong also gets developed. Every country has experienced this type of situation. Every country has the problem of disparity among regions. Even in Japan, people from Hokkaido go to Tokyo and Osaka to work. What's so unusual about that? There are 300,000 people from Hunan working in Shenzhen. 10,000 of those are management personnel at the production group supervisor level or above. They have made many contributions toward developing prosperity

in Shenzhen. If one hypothesizes on withdrawing them back to Hunan, what would happen to Shenzhen?

Wang Maolin pointed out that the problem of the so-called "Guest Workers' Tide" was mainly that the rail lines and transport system currently cannot meet demands. Therefore, during the Spring Festival there is a problem of over-crowding. If the transport system is developed, with rail lines and air routes appropriately arranged, then the "Guest Workers" will not become a "Tide." When the economy in Hunan is developed in the future, they also will not necessarily need to go to Guangdong to work. Of course, oversight of the guest workers needs to be strengthened, with proper guidance. On the one hand, they should be warned to work diligently, obey local laws and not break the laws or violate discipline. On the other hand, their legal rights should be protected so that they are not humiliated or insulted.

According to Secretary Wang's estimates, there are about four million Hunanese working in Guangdong (some say six million). Wang Maolin feels that as Hunan develops those who have gone out to work will gradually return. A positive aspect of this can be seen. The men and women who go out to work go to develop Guangdong. After a few years of struggle, they earn some money and learn how to do business, make many friends, and come back to develop a private economy. They can develop into a source of strength in the future economy of Hunan. There must be a comprehensive assessment of the role which the guest workers can play.

#### What about the Relationship Between Hunan and Guangdong?

On the relationship between Hunan and Guangdong, Wang Maolin said that Guangdong is an experimental area for reform and opening. Many policies are first implemented in Guangdong. Because Hunan borders this neighbor province, this brings many benefits to Hunan:

1) The southern Hunan region which borders Guangdong is the transitional experimental region for opening and reform. The experiences of Guangdong with reform policies are first implemented in southern Hunan. There are many benefits for Hunan in opening the door to the South, attracting foreign investment to the North and diluting the concept of the border.

2) The development of agriculture in Hunan must depend on Guangdong but with different adjustments based on different situations. We plant whatever Guangdong and Hong Kong need. Because the products sold to Guangdong and Hong Kong are sold for a higher price, it is in Hunan's interests to occupy this market. Hunan will become the base area for agricultural by-products and processing for Hong Kong and Macao.

3) Because the price of labor in Shenzhen and Guangdong is relatively high, there have been some changes in



industry structures, and some of the three processings and one compensation industries [processing supplied materials, assembling supplied parts, processing in accordance with supplied samples, and compensatory trade] are moving to Hunan.

In summary, Hunan is uniting with Guangdong to become Guangdong's backup supply base. The relationship is getting closer and closer. If Guangdong needs rice, then we supply rice. Of course, the price must be fair, with fair trading. The era of allocating and transferring goods based on parity pricing is gone. And the closing of the border so that no rice shipments could pass, as happened several years ago, will not occur again. In a market economy, Hunan will strive for an economic hold in the Guangdong market. This type of effort will use peaceful methods and economic methods to occupy the market. [passage omitted]

### Finance, Banking

#### Local Governments' Revenue Decreases Under Tax System

94CE0607A Beijing JINGJI YU GUANLI YANJIU  
[RESEARCH ON ECONOMICS AND MANAGEMENT]  
in Chinese No 3, 8 Jun 94 pp 24-26

[Article by Li Li (2621 4539), affiliated with the Jiaozuo Municipal System Reform Commission in Henan Province; edited by Xiao Tong (5135 1749): "Local Revenue Since Tax-Sharing"]

#### [Text] I

A key step in China's 1994 economic reform is the establishment of a tax-assignment [-sharing, -separation] system. In line with China's national conditions and economic track-conversion needs, the key reason for establishing a more centralized tax-assignment system in our revenue system is to strengthen central macroeconomic regulation and control capability, changing from local payments to the center to local requests for money from the center. This is of key significance in establishing mutual-balance forces for administrative authority and revenue, as well as in speeding up our development of a socialist market economy. Meanwhile, it will also impact local revenues for a set period of time.

**1. Local revenues will be relatively lower.** The tax-assignment system designates central fixed-revenue tax categories as tariffs and commissioned-collection value-added and consumption taxes, special regulatory taxes, central-enterprise income taxes, local financial-insurance-enterprise income taxes, and centrally paid business taxes (including business taxes on the four large banks, insurance companies, and railways); it designates local fixed-revenue tax categories as business taxes (not including business taxes on the four large banks, insurance companies, and railways), local-enterprise income taxes, individual income taxes, fixed-assets investment-orientation regulatory taxes, farming and livestock

industry taxes, land value-added taxes, inheritance and gift taxes, and other scattered tax categories; and it designates the tax categories where revenue is to be shared by the Center and localities as value-added taxes (75 percent to the Center), securities-transaction taxes (50 percent to the center), and resource taxes. Since tax assignment, the general situation is that Central revenue accounts for two-thirds of all revenue.

**2. Local capabilities will be weaker.** 1. In the new tax-assignment revenue system, as localities can budget only local taxes and a few shared ones, their ability to act is clearly weaker. In addition, the increased mandatory spending put into effect by the Center in areas, such as general wage adjustments, has produced severe fiscal deficits for certain localities, particularly at the county level, leaving not only their operating revenues not ensured, but also making it impossible for them to acquire administrative revenues. 2. Reformed tax categories are fewer, with higher tax rates, the three flow taxes changed to value-added taxes, and the overall tax rate up from 3 percent to 6 percent, leaving most enterprises with higher tax burdens, less retained profits, and reduced development capability. 3. The pre-reform tax system for contract enterprises was taxpayer in contract form, with bases jointly consulted on and set by state revenue, taxation, responsible enterprise departments, and enterprises, and taxpayments far below the state-set income-tax-rate of 55 percent at generally around 25 percent. The income-tax-rate in the tax-assignment system is 33 percent, theoretically lowering the tax burdens of contract enterprises, but actually raising them, with the tax-assignment system also revoking local tax-reduction authority, impacting economic-development capability.

**3. The returns system will have more of an impact on straitened regions.** As straitened regions already operate on their own revenues, which they even have trouble ensuring, the tax-assignment system will make them more dependent on the center. As there is a time lag for quick action between payments [to the state] and returns [to localities], unless returns are prompt, it will be hard for these localities to ensure their regular funding. The tax-assignment system's returns methods are in the three forms of ordinary returns, factored returns, and special allocations. And while standardized management is practiced, all management involves a human factor. As objectives need publicized, conditions need clarified, and difficulties need thoroughly explained, the returns system is bound to spur localities to run to the Center, increasing the local cost of obtaining these returned funds, and obviously making the cost paid by straitened regions for local funding more conspicuous.

**4. Past deficits and self digestion of inventories will make local burdens heavier.** As the tax-assignment system abolishes the past method of estimating local spending bases based on the base law plus a factor law, changing 1993 local vested financial resources to future spending bases, and not considering past or future deficits, all of

which will be digested by localities themselves, local revenues will be more heavily burdened. As enterprise losses are quite severe, with a historical sediment due to our past emphasizing of output value over sales, in addition to normal reserves, China's industrial and commercial enterprise inventories, such as products, commodities, and raw materials, are enormous, averaging around 500 million yuan for a medium-sized county. In the initial tax-assignment period, as these inventories may not be counted as tax deductions per stipulation, this one item alone will increase the average tax burden in 1994 for a county by about 40 million yuan.

## II.

As this tax-separation reform adjusts profit-distribution relations, it will be hard for it not to impact localities during the transition from the old system to the new. But as long as they intensify reform, striving for progress, and establishing relatively independent local fiscal-operation forces that are flexible and effective, localities will be able to overcome the difficulties that they will face in the initial tax-assignment period.

**1. Localities need to optimize their economic structures, to enhance their own might.** Localities need to act in line with their local resource and personnel advantages, establishing their own distinctive economies in line with local conditions, by focusing their major economic energies on solving glaring problems, such as duplicate disposition and construction, imbalanced industrial structures, and poor enterprise efficiency. They need to strongly emphasize business management, raising economic efficiency, taking a path of intensive expanded reproduction, and turning losses to profits and reducing deficits through higher revenue from increased production and better efficiency from higher yields, to develop enterprises and increase revenues. They need to correctly deal with local-central profit relations, vigorously cultivating and expanding local tax sources premised on overall planning and taking all aspects into consideration, making factors, such as tax rates and tax sharing, one of their grounds for adjusting local economic structures, and making tax and profit efficiency a key term for overall economic expansion, to accelerate the establishment of their own mainstay industries and large profit and taxpayers, create key local revenue sources, and essentially add to their might.

**2. Localities need to push forward with structural reform, converting their fiscal functions.** As the tax-assignment system emphasizes the fiscal macroeconomic regulation and control function, local revenue departments also need to adapt to this functional conversion, taking advantage of it to promote systematic reform of their whole fiscal management system. 1. Localities need to recover and develop their fiscal production-operation nature, strengthening fiscal participation in economics, and using a certain amount of financial resources to develop financial credit, to help enterprises grow in size and improve in efficiency. Meanwhile, they need to

exploit the fiscal advantages of wide connections and more economic expertise to actively provide enterprises with good information guidance and intermediate service. 2. Fiscal support needs to be grounded in industrial-enterprise product sales and commercial-enterprise commodity marketability, slanted toward the products and commodities of industrial enterprises with good efficiency, low product costs, and marketable commodities. 3. Localities need to accelerate their pace of administrative reform, rationally adjusting their fiscal-spending structures, and appropriately cutting back on nonproduction spending, to make a gradual transition from subsistence financing to production and construction financing.

**3. Localities need to improve their administrative efficiency, raising their cost awareness.** Localities need to change their old ideas about administration not emphasizing cost, firmly establishing an ideology of money management, so that administrative costs permeate all links of administration. They need to make cost efficiency analyses of their administrative actions, practicing cost accounting, planning directed administrative actions, conducting thorough investigation and study, soliciting widespread opinions, designing certain plans, and making estimates and analytical comparisons of structural costs and social costs, to determine the time limits, means, and methods of administrative actions. They need to boldly consider the rate of return on administrative spending, using the most economic means possible to conduct effective administration.

**4. Localities need to improve their tax revenue systems and legal establishments, reinforcing collection management.** The tax-assignment system provides for separate Central and local tax collection management organs, with Central and shared taxes the responsibility of the Central Tax Administration, and local revenue that of local tax bureaus. This makes local collection management more important. 1. Localities need to accelerate their pace of tax-revenue standardization and legalization, giving local tax-revenue hard restraints, to better promote tax control, collection, and management according to law. 2. Localities need to conscientiously rectify their tax-revenue order, strictly enforcing tax policy, clearing up and redressing tax-evasion acts by entities, such as phoney collectives and fake joint ventures, with all local funds being collected amply and in full, and managed and used well. 3. Based on the principles of capability, efficiency, and good management, localities need to establish local tax organs, building better corps of tax collectors, providing better political and professional quality and enhanced combat effectiveness, and introducing competitive forces to raise morale, to ensure high-quality tax collections.

**5. Localities need to act in line with all realities, rationalizing local distribution relations.** While the Center and provinces are using separate tax systems, this certainly does not mean that localities need to copy this level by level. For local revenue departments at all levels, while

qualified ones can practice tax separation, this certainly does not exclude some continuing to practice the tax-package system. In all cases, this should proceed from realities, to rationalize distribution relations. This means that localities need to emphasize investigation and study, focused on building tax-revenue systems with local distinctions and advantages. We need to combine the whole with the details, enabling wealthy regions to promptly practice the tax-assignment system, so that they can as quickly as possible form a standardized and scientific fiscal management system, to speed up our establishment of a socialist market economy; particular regions can continue to practice the fiscal-package system, in support of as fast as possible growth; enterprises with good efficiency can operate in between the tax-assignment and package systems, continuing to practice overall input-output contracting and, once their absorption capability and sustainability grows, promptly moving to the tax-assignment system.

6. Localities need to make every effort to increase their revenues, actively striving for returns [from the center]. As Central returns to localities is a key part of our tax-assignment revenue system, it is the job of local revenue departments to receive normal returns and create the conditions for acquiring special ones. Localities need to actively pave the way for attracting special allocations and priority construction funds from Central revenue, using as much as possible of these returns to speed up local economic development. They need to fully mobilize and use private funds, expanding lateral financing and borrowing channels, and drawing on property-rights reform to increase funding. On one hand, shareholding reform will increase enterprise capital, while auctioning off of inefficient and unneeded state enterprises will stimulate these enterprises, as well as turning funds tied up in them from inventories into liquid capital, with faster turnover increasing funds. Localities need to continue to attract and use more foreign investment, drawing on outside advantages to develop their own economies, and exploiting their own advantages to take over outside markets, in an active search for foreign financing. Localities need to exploit both local and outside advantages together in an effort to essentially reverse the local-revenue status quo in the not too distant future.

#### Article Views Impact of Tax Reform on Prices

94CE0635A Beijing JIAGE LILUN YU SHIJIAN  
[PRICE: THEORY AND PRACTICE] in Chinese No 6,  
20 Jun 94 pp 30-32

[Article by Zhang Manying (1728 3341 5391) and Chen Bingbin (7115 0365 1755): "The Impact of Price Reform on Market Prices"]

[Text] We recently conducted a special investigation of the impact of tax reform on market prices in provinces and municipalities, such as Guangdong, Hubei, Zhejiang, and Tianjin. We found that the institution of the

new tax system, particularly the actions of certain enterprises in exploiting the opportunity to raise prices arbitrarily, had a certain driving impact on current market price rises, which will continue to become pressure driving prices up. So the state needs to take firm steps to ensure the realization of the goal set forth by the Party Central Committee and State Council of "seizing the opportunity to intensify reform, expand opening, speed up development, and preserve stability."

#### I. The New Tax System Has Put Heavier Tax Burdens on Some Industries

1. The tax burden on the mining industry is generally heavier. The change from product to value-added taxes for such enterprises has brought a higher tax rate, while also raising the resource tax somewhat. Taking for instance the estimated 1994 planned sales income of the Dabaoshan iron mine in Guangdong, the new tax system has made the tax burden 340 percent heavier than before, turning the enterprise from a 12-million-yuan profitmaker into a 38-million-yuan loser.

2. The tax burden on industrial enterprises that use mostly natural resources as their raw materials is generally higher. For instance, since the value-added tax was put on enterprises, such as waterworks, cement, and hydropower, as their raw materials are mainly very low value-added natural resources with little receipts taxes, tax burdens are up sharply. Estimating the 1993 sales income of the waterworks company in Zhuhai, while its tax burden under the old system was 1.83 million yuan, the new tax system gives it sales-item taxes of 6.43 million yuan, minus receipts taxes of only 230,000 yuan, making its taxes 6.2 million yuan, for a tax burden 239 percent higher than before, which raises its cost of tap water 0.047 yuan a cu m.

3. The new tax system has expanded the tax base, raising the tax burden sharply for enterprises engaged in long-distance hauling operations of bulk goods. As the new tax system provides for changing the past taxation of sales income minus freight and miscellaneous expenses to taxation of all sales income including non-price expenses, this expands the tax base, correspondingly raising the tax burden. This raises the tax burden sharply for enterprises whose freight and miscellaneous expenses make up a high percentage of their operating costs. Estimating for instance the 1993 sales income of a fuel company in Guangdong Province, the new tax system means that as its coal freight and miscellaneous expenses make up about 60 percent of its purchase costs, its tax burden is 435 percent higher than before, raising its cost of coal 12.20 yuan a ton.

4. The tax burden is also generally higher on enterprises making high-tech and high added-value products. The value-added tax is characterized by the higher the added value, the more the tax payment. This obviously raises the tax burden on high-tech products and on brand-name goods with high commercial-reputation value. For



instance, estimating the sales income for January 1994 of the Daya Computer Zhimai Corp in Zhongshan City, the tax burden is up 128 percent from before.

5. As for enterprises that used to enjoy a policy of tax reduction and exemption, the new tax system abolishes this preferential policy, making tax burdens obviously higher. This is seen most conspicuously in enterprises that handle capital goods and township enterprises that enjoyed a policy of large local tax preferences. The estimations for agricultural capital goods companies in Hubei are that tax reform has raised the tax burden 6.78 yuan per ton of parity-price urea, and 18 yuan per ton of negotiated-price urea. The Hubei Province Township Enterprise Bureau reports that based on 1993 output value, the tax burden for township enterprises throughout Hubei under the new tax system is up 800 million yuan, or 53 percent.

6. The tax burden is also up somewhat for enterprises that produce key nonstaple foods closely affecting living standards. For instance, since four soy sauce and vinegar plants subsidiary to the Ningbo Vegetable Company instituted the value-added tax, they lost 140,000 yuan in January 1994, while their tax burden went up 100,000 yuan. This was due mainly to their not having the special invoices when buying raw materials from peasants, such as bean dregs, wheat, and rice, so having to deduct a 10-percent receipts tax, thus making their real tax burden higher.

7. The tax burden is generally higher for the wholesale link of commercial circulation. While the old tax system calculated and collected a wholesale business tax of 10 percent of the shortfall between purchase and sale, the new tax system collects a value-added tax at 17 percent of the tax-exclusive price difference between purchase and sale, generally raising the tax burden on wholesale enterprises over 40 percent.

## II. The New Tax System Is to a Certain Extent Driving Market Price Increases

1. This tax reform focused on the value-added tax is a structural adjustment, with the overall tax burden planned to be essentially fair. As to the upward or downward adjustments of enterprise tax burdens, due to the price-rigidity effect and enterprises acting out of the profit motive, enterprises with higher tax burdens that cannot or do not wish to absorb them on their own are bound to find a way out through raising prices. Particularly in the current state of too brisk market demand and consumption fund expansion, the institution of the new tax system is very apt to drive enterprises with higher tax burdens to raise their product prices. This is even more evident in enterprises with little production-operation demand flexibility, great market potential, and marketable products.

2. Prices of state-managed products and certain basic goods affecting the national economy and the people's livelihood are subject to greater price-rise pressure. The

prices of state-managed products, such as the tap water, power, refined oil, and chemical fertilizer produced respectively by the Wuhan Waterworks, the Shantou Power Bureau, the Guangzhou Petrochemical Plant, and the Hubei Agricultural Capital Goods Corp, are all subject to intense price-rise demand. Some enterprises are already employing the means of declaring while raising prices. The Hubei Agricultural Capital Goods Corp has raised its price for negotiated-price urea 15.3 percent. The Guangdong Fuel Corp estimates that Guangdong's annual coal consumption is 29 million tons, with the new tax system raising its tax burden a net of 354 million yuan a year, so that if all of this is shifted through prices, it will be bound to severely impact the coal-consumption costs of downstream products. Once these basic goods affecting the national economy and the people's livelihood go up in price, this produces a chain reaction on downstream-product prices, thus impacting overall market price rises.

3. Even enterprises without higher tax burdens are tending to raise prices. As the value-added tax first collects sales-item taxes and then deducts purchase-item [receipts] taxes, this takes over without compensation some enterprise working capital which, as the interest burden grows, puts even greater pressure on enterprises already subject to fund shortages. For instance, even the preferential policy of tax reduction and exemption practices first collection and then refund. So many enterprises raise prices to shift the burden and recover their funds. The Zhongshan Food Corp reports that while the state practices a policy of tax exemption for foods in the meat category, its purchase price per ton for pork bought from the hog-producing region in Sichuan is up from 1993's 9,100-9,200 yuan to 10,500-11,000 yuan, for a general rise of 17.5 percent.

4. Since the institution of the new tax system, while certain enterprises should have had lower tax burdens, the actual implementation has clearly increased their tax burdens instead, forcing them to raise prices. Taking the January 1994 sales income of the Jianlibao Soft Drink Plant in Guangdong for instance, while theoretical estimations are that it should pay 6.13 million yuan in taxes, 5.37 million yuan less than before tax reform, the actual implementation has resulted in a tax payment of 13.69 million yuan, 2.19 million yuan more. This is because most of its purchased raw materials, packaging, and low-value articles come from small-scale taxpayers who do not have special invoices from which to deduct receipts taxes. So for the enterprise to maintain its former profit level, it has to raise the prices of its products. In fact, the factory prices of all Jianlibao soft drinks are already up to varying degrees.

5. While the tax burden in the retail link of commodity circulation is down somewhat, the dynamics show that the final retail prices of commodities remain in a rising trend. Since the institution of the new tax system, tax burdens are clearly higher for certain basic industries and wholesale links, with greater price-rise pressures,

and the price-rise trend among township enterprises also quite conspicuous. With prices deregulated, price rises in the production and wholesale links are bound to result in corresponding ones in the retail link, which is unavoidable. For instance, while the tax burden on "Energy 28" laundry detergent at the Hongshan Market in Wuhan is down 0.10 yuan per retail sack since tax reform, meaning that the price should have gone down, the price instead is up from 4.09 to 4.64 yuan a sack, caused by higher prices in the wholesale link. Taking another example, while the tax burden is down on the Tianjin Department Store, as its household appliances are still subject to the former 10-percent local difference-rate and the 12-percent difference between wholesale and retail, with the factory prices of the refrigerators that it bought in February 1994 generally up, retail prices have risen accordingly.

### III. Major Problems in the Application of the New Tax System

1. All areas are generally reporting that this tax reform has taken effect too quickly, with inadequate publicity and preparation, leaving certain taxpayers misunderstanding the new tax system, making mistakes in price and tax calculations, and in some cases marking up prices 17 percent or 13 percent.

2. Some enterprises have exploited tax reform to raise prices arbitrarily. The Oriental Commerce Building in Huangshi Hubei reports that when the Naide Company Group in Guangdong supplied it with Naide brand washing machines, it raised the price per machine from 1993's 1,370 yuan to 1,550 yuan, or 13 percent, claiming in the price-adjustment notice that "the price was raised 180 yuan per machine due to tax reform."

3. Certain enterprises are not using the special invoices according to provision, evading taxes for profit and adding to the burdens of purchasing units, which results in higher prices. For instance, when the Aquatics Products Company on Yide Road in Guangzhou wholesales to customers, it sells at the original price for cash or with ordinary invoices, but at a 17-percent markup with the value-added-tax special invoices.

In addition, the choice of the time for putting the tax-reform into effect, between New Year's Day and the Spring Festival, also played a role in adding fuel to the flames of market prices.

We hold that the implementation of the tax reform and the actions of certain enterprises in exploiting it to raise prices arbitrarily has played an objective role in driving prices up, being one of the causes of the current faster rise in prices, as well as to a certain extent impacting the production operations of certain enterprises and living standards. The Guangzhou Pricing Bureau estimates that the tax reform will drive its 1994 market prices up about 1-1.5 points overall. And analysis by the Hubei Statistics Bureau shows that tax reform will drive that province's retail price index up about 4.6 points.

### IV. Suggestions

As the new tax system is playing a certain objective role in driving market prices up, with potential pressures continuing to grow, we need to take active steps to strive to keep the negative impact of tax reform on market prices at a minimum. Otherwise, it will keep us from achieving our 1994 aim of controlling our retail price index. So we are suggesting:

1. We need to speed up our pace of pricing legislation, to perfect the state's system of regulation and control of markets and prices. We need to conscientiously apply the "Regulations on the Oversight and Examination of Daily Necessity and Service Prices" and the "Provisions on Clearly Marked Prices for Commodities and Services," establishing and perfecting grain risk funds, nonstaple-food price-regulation funds, and a reserve system for key commodities, to reinforce our capability of using economic means to regulate and control market prices.

2. We need to better guide deregulated commodity and service prices. Premised on not infringing on enterprise pricing authority, we need to help enterprises calculate taxes and prices strictly in accordance with the new tax system. We need to emphatically bring into play the leading role of large and midsize state commercial enterprises in enforcing national policies and legislation.

3. When the state plans 1994 tax-reform items, it needs to fully consider the impact of tax reform on market prices due to the higher tax burden on certain basic goods.

4. We need to adapt to the needs of the new tax system, by improving the state-set pricing method. When the prices of state-priced commodities are set or adjusted, we need to clarify that the prices do not include value-added taxes. As to commodities whose prices certainly need increased due to higher tax burdens, responsible pricing departments at all levels need to make suitable adjustments in line with the principles of division-of-labor jurisdiction, strict examination and approval, and making enterprises with higher tax burdens absorb them on their own with rational external burdens.

5. We need to intensify pricing oversight and inspection. Based on the demands of National Document No 15 (1994), we need to firmly investigate and punish behavior that exploits tax reform to arbitrarily raise prices and collect fees, putting the inspection focus on basic goods and consumer goods that closely affect living standards.

6. We need to correctly deal with all conflicts that arise in the course of putting the new tax system into effect, continuing to intensify and perfect tax reform. We need to appropriately broaden our definition of the ordinary taxpayer, defining small-scale taxpayers with sound accounting systems also as ordinary taxpayers. We recommend continuing the extension of the policy of tax exemption or fiscal subsidies for new, higher tax burdens on agricultural capital goods, in support of agricultural



production. As to enterprises subject to working capital shortages due to paying sales taxes, tax departments can suitably provide them with interest-free revolving funds, to resolve enterprise difficulties. We need to better manage value-added-tax special invoices, firmly cracking down on the illegal substitution of ordinary invoices for special ones. And we need to better emphasize training in and study of the new tax system for our taxation staff and for enterprise finance officers.

### Implementation of Standards for Enterprise Accounting

94CE0664A Beijing JINGJI RIBAO in Chinese 7 Jul 94 p 3

[Interview with Vice Finance Minister Zhang Youcai (1728 0147 2088) by Li Zhengping (2621 3630 1627) and Qian Fengyuan (6929 7685 0337); place, date, and occasion not given: "The Two Standards Have Been Working Well for One Year"]

[Text] With the "Two Standards" (the "Enterprise Financial Rules" and the "Enterprise Accounting Standards") showing China's change of track in financial-accounting system having now been in effect for one year, we reporters recently interviewed Vice Finance Minister Zhang Youcai on them.

**Reporter:** Vice Minister Zhang, in the year since all Chinese enterprises began to uniformly use the new enterprise financial-accounting system on 1 July 1993, as all parties have been particularly concerned about the new system's operation, as well as its business and even economic impact, could we ask you to brief us on these matters?

**Zhang:** The "Enterprise Financial Rules" and the "Enterprise Accounting Standards" that went into effect a year ago are of historic significance in at least two areas: 1) They have ended China's history of separate financial accounting systems by ownership system, department, and industry, beginning financial accounting management according to uniform standards. 2) They have changed our "local dialect" of financial accounting language, adopting the financial accounting language of international practice. So this reform was not a minor adjustment, but rather a fundamental change that for enterprises and the management departments concerned, contained many parts requiring relearning and adaptation, making its difficulty easily understandable. With the new system in effect for one year, it is working fine, having begun to put our enterprise financial-accounting management onto the right track.

1. This reform, from staff training to accounts adjustment and system reform, had only a six-month preparation period, which made it very difficult with so many enterprises and such uneven management staff quality in China. But through a year of adjustment and wear, our business financial-accounting management has begun to get onto the right track, which is a most crucial and essential success.

2. Since the "Two Standards" have been in effect, the change of accounting method has turned some enterprises from covert to overt losers, with book profits down and losses up. So a few enterprises made certain complaints for a time, holding that this was a reform problem. But after a year of learning through practice, most enterprises have recognized that the application of the "Two Standards" was necessary for forces conversion and fair competition, as well as a key prerequisite for expanded international economic cooperation.

3. Since the "Two Standards" have been in effect, the financial authority that they devolve to enterprises has been essentially devolved, with enterprise disposable financial capacity up somewhat from before. Due to poor efficiency in a few enterprises, the incomplete implementation of steps, such as accelerated depreciation and loan interest being included in costs, is now being gradually resolved.

The requirements that we set forth when designing this new system, such as helping to clearly reflect enterprise property-rights and balance-sheet relations, contributing to fair business competition by speeding up the conversion of enterprise operating forces, and helping to close us up with international practice, have now been essentially achieved. In the five major reforms of finance, taxation, banking, foreign trade, and investment that we are conducting in 1994 in particular, we have even more clearly seen that our enterprise financial-accounting reform direction is right and farsighted, creating the essential terms for overall reform advances.

**Reporter:** In the dovetailing and change of track from the old to the new system, to resolve certain historical enterprise burdens, certain preferential policies were drawn up. How have these worked out in actual implementation?

**Zhang:** In this financial-accounting reform, we aimed at establishing enterprise financial-accounting forces for fair competition, instead of simply considering the impact of reform on fiscal receipts and spending. To help in the formation of these new forces, the state took a series of preferential steps directed at the heavier burdens on enterprises, particularly older ones. In the change of track from the old to the new system, state enterprises have per provision reduced part of their historical burdens through steps such as writing off the enterprise welfare-fund deficits accumulated over the years, writing off the enterprise-production special-fund deficits, and writing off enterprise old loan interest, laying certain grounds for enterprises to change track and establish the new system.

**Reporter:** The reform helped macroeconomically to tighten regulation and control and microeconomically to invigorate enterprises. As the new system grants enterprises full financing autonomy, have enterprises had a stronger independent financial capacity in the last year, and could we ask you to brief us on this matter?

**Zhang:** For state enterprises, in addition to the above-mentioned lump-sum resolution of part of the historical enterprise burden in the change-of-track process, we have also taken steps such as generally shortening the depreciation life by allowing some industries to practice an accelerated-depreciation method, gradually including bonuses in costs and expenses, expanding the computation and deduction base for employee welfare funds and educational expenses, setting aside bad-debt reserve funds, and including longstanding debt interest in pretax financing expenses, which have sharply strengthened enterprise financial capacity, fully granting enterprise financing autonomy, and laying the grounds for enterprise independent operation, independent financing, and corporate property rights.

**Reporter:** What role has reforming the enterprise financial-accounting system first played in establishing a modern enterprise system?

**Zhang:** An enterprise financial-accounting system is the foundation of business management, as well as a key part of a modern enterprise system. A uniform, fair, standardized, and scientific financial accounting system is undoubtedly of key importance in adapting to a modern enterprise system. The implementation of the "Two Standards" has created the essential terms for our establishment of a modern enterprise system in at least the following three areas: 1) As a modern enterprise system requires clear property rights relations, our new system sets up a capital-fund system, ensuring that enterprise property rights relations are clearly reported in financial accounting. 2) The new system acts in line with market-economy demands, by standardizing enterprise actions, such as fundraising, investment, cost compensation, and income distribution, setting the rules of competition for standardized enterprise market operations. 3) It has achieved fair competition among enterprises of various ownership forms and legalized financial-accounting management, paving the way for the development of financial auditing oversight and registered accounting agencies.

**Reporter:** Has our new enterprise financial-accounting system's being designed in line with international practice played a role in our overseas economic cooperation?

**Zhang:** For enterprises to move toward a market economy and the international market, engaging in overseas economic cooperation and exchange, they have to use the "business language" that is in common use throughout the world. Our implementation of the new system makes it much easier for enterprises to engage in overseas economic cooperation. Enterprises generally report that since the new system has been in effect, they can understand overseas financial statements, making it easier to rationally select investment targets and projects; and foreign firms can also understand our financial-accounting system and financial statements, helping them to understand the financial situations of their Chinese cooperative partners. So the new system

has played a "bridging" role in helping enterprises take part in international market competition, promoting overseas cooperation.

**Reporter:** What plans do you have for further improving the new system?

**Zhang:** As economic conditions develop and reform intensifies, the "Two Standards" will need to be continually improved through practice. Our next step will be to act in line with macroeconomic reform needs in areas, such as fiscal taxation, banking, investment, foreign trade, and foreign exchange, emphasizing the formulation of detailed accounting standards, to draw closer to international practice. Meanwhile, we need to continue to emphasize related improvements in our management system within enterprises, helping enterprises to draw up internal financial-accounting management methods. We need to genuinely form the management forces required by the "Two Standards." As the Ministry of Finance has recently printed and distributed the "Guiding Views on the Formulation of Internal Financial Management Methods for Industrial and Trade Enterprises," all regions and departments need to make this job a key part of enterprise shareholding upgrading and corporate reorganization to establish a modern enterprise system, emphasizing the basic task of business financial-accounting management.

#### **Article Views Tax Revenue Losses Through Loopholes**

94CE0607B Beijing ZHONGGUO GUOQING GUOLI [CHINA NATIONAL CONDITIONS AND POWER MONTHLY] in Chinese No 5, 28 May 94 pp 32-34

[Article by Zhang Wei (1728 0251), affiliated with the Jiujiang Municipal Party Committee Research Office in Jiangxi Province: "The Black Holes of China's National Tax Losses"]

[Text] *Editor's note: Tax losses are an economic phenomenon that seems to have always been unavoidable both in China and abroad. While no country can collect taxes 100 percent, the problem lies in the severity of the losses. What is the actual extent of China's tax losses? Incomplete data from the pertinent sector show that China's tax losses amount to 100 billion yuan a year! A thorough probe into the "black holes" of our national tax losses shows the many startling tricks employed by these "tax rats."*

**Black Hole 1—"Contract" Flow Taxes.** As the major category of China's industrial and commercial taxation, flow taxes include product, value-added, and business taxes. These taxes cover commodity prices and services, being finally passed on to consumers through earned value. But since the first half of 1992, certain areas have decided on their own to impose contract or covert-contract flow taxes on some enterprises, which essentially enables enterprises to illegally seize "most" of the taxes paid by consumers to the state, causing a large loss of national tax revenue.

**Black Hole 2—Unauthorized Tax Reductions and Exemptions.** While the policy of tax reductions and exemptions is a good one employed by the state to encourage and support production development by enterprises that are subject to special conditions or operating difficulties, it turns out to be subject to distortion or to having some of its good "clauses" misread. Certain areas and units violate national tax laws, granting unauthorized tax reductions and exemptions beyond their jurisdictions, expanding tax-reduction and exemption limits, setting their own preferential tax policies, and extending tax-reduction and exemption terms, while others even conduct tax-reduction and exemption "contests," undermining national tax-law unity and solemnity, and causing enormous losses to state revenue. In the recent competition to set up development zones, many areas have employed a host of various tax reductions and exemptions as bargaining chips to solicit foreign investment. To attract foreign investment to its development zone, one city actually announced a 15-year-plus tax exemption! While our tax laws do not give localities the authority to decide tax reductions or exemptions for whole industries, a certain eastern Chinese city actually exempted 9 of 10 enterprises in one industry, keeping one to ward off central policy on the grounds that it did not exempt the whole industry! Tax reductions and exemptions in one eastern Chinese province caused revenue losses of hundreds of millions of yuan in 1993.

**Black Hole 3—Tax Evasion.** Tax revenue, as the lifeblood of the state, is now sustaining severe losses. The data shows the tax-evasion scope to be 50 percent for our major lifeblood - state enterprises, 60 percent for our fresh lifeblood - township enterprises, 80 percent for our scattered lifeblood - the self-employed, and 95 percent for our colorful lifeblood - income regulation taxes on individuals. The data from a national tax inspection reveals that the amount of tax evasion discovered since 1985 has been growing yearly, at 2 billion yuan in 1986, 3.36 billion yuan in 1987, and 6.44 billion yuan in 1988. In 1991, our tax organs inspected 40 percent of individual industrial and commercial household operations and 60 percent of private enterprises, as well as 65,000 "nominally collective but actually private" enterprises and some "commissioned tax-withholding units," discovering 1.44 billion yuan in overdue taxes, with 22,091 cases of tax evasion topping 5,000 yuan each. The data from the State Council General Investigation Leading Group Office on Taxation, Finance, and Pricing shows tax evasion by individual and private enterprises in 1992 at 30 billion yuan! And how much was missed? It would seem hard to count. The terrifying thing is that this tax-evasion phenomenon has already become like an epidemic plague, having infected in recent years certain FIEs and Hong Kong and Taiwanese song stars. After inspection found tax evasion, the service department of a famous international computer company in Beijing actually refused to pay, even threatening that "if we are forced to pay, we will break off our trade dealings with

China." Hong Kong and Taiwanese stars who come to the red mainland earn as much as a million yuan a performance, singing all about "love" on stage, while ruthlessly evading taxes. In the first 8 months of 1993, certain Hong Kong and Taiwanese song stars actually paid no personal income taxes on income from 21 performances in eight arenas.

**Black Hole 4—Tax Avoidance.** Tax avoidance by the three kinds of foreign trade enterprises has become an unavoidably severe problem, with figures showing 60 percent of them engaging in such activity. They treat forced-up-price equipment as investment, providing raw materials at high prices, intentionally forcing down prices when exporting commodities, and creating "nominal losses but real profits" through buying high and selling low, shifting profits to avoid taxes. In one joint venture that makes shoes for tourists, the boss exported 100,000 pairs of shoes at \$2.16 a pair, below cost, while this factory actually sold this batch of shoes abroad for \$15-18 a pair, enabling the other boss to earn a one-time profit of about \$1.3 million through "profit-shifting." Such is how state tax revenue is lost imperceptibly.

**Black Hole 5—Fraudulent Tax Rebates.** Since 1985, to encourage domestic products to break into the international market, and in line with international practice, China has practiced a policy of tax rebates for exports in which, when enterprises export products, they are refunded the product, value-added, business, and special consumption taxes paid in the production link. But a few lawless elements and enterprises have wracked their brains to exploit such "preferences," employing means, such as forging counterfeit invoices, tax payment certificates, and customs declaration forms, to sharply gobble up state tax rebates. In recent years, tax-fraud products have expanded from high-tax-rate and high-value products to ordinary ones, such as clothing and electric cables, with the offense links growing from the tax-rebate link to the collection link, the offense fields growing from developed coastal zones to remote border regions, and the offenders growing from a few export enterprises to professional tax-fraud gangs, presenting a scene of unstoppable and ever-growing intensity. In 1990, a certain province investigated and prosecuted 18 cases of fraudulent export tax rebates, amounting to 62 million yuan. In 1992, the large "12.17" tax-fraud case that shocked the nation occurred, in which a tax-fraud gang issued counterfeit invoices worth 500 million yuan, defrauding the state of over 10 million yuan in tax rebates. From August through November 1992, five collective enterprises in Xianning Hubei colluded with tax-fraud elements, as well as with the Xianning tax department, to issue bad invoices and counterfeit tax-paid certificates, defrauding the state of 12.1689 million yuan in export tax rebates. By 1993, tax-fraud cases were occurring even more frequently. In July and August of 1993, a tax-fraud case uncovered by the Tongzhou Municipal Procuratorate in Jiangsu amounted to more than 13 million yuan. The "Joint Office for Cracking Down on Fraudulent Tax Rebates" of the Supreme



People's Procuratorate and the State Administration of Taxation reveals that in the first 8 months of 1993 alone, it discovered fraudulent invoices worth 3.5 billion yuan, defrauding the state of export tax rebates topping 100 million yuan. Such cases have spread to over 150 foreign trade export enterprises, more than 50 production plants, and over 40 tax organs in more than 20 provinces and autonomous regions throughout China.

**Black Hole 6—Tax Payment Arrears.** While national taxation is characterized by prompt, full, and balanced payments into the treasury, some places have not only some enterprises that cannot pay their taxes due to natural disasters and very poor operations, but also others that actually treat taxes as "interest-free funds" to be used for fund turnover without regard for national fiscal needs. The huge amount of outstanding taxes offsets the impact of national macrofinancial policy, with some tax arrears having become "closed accounts" because they have remained unpaid for so long. The data shows that by June 1992, tax-payment arrears throughout China had topped 21 billion yuan. Other figures indicate that by the end of June 1993, enterprise tax arrears alone had reached 10.9 billion yuan, with bank-held funds at 1.4 billion yuan, adding up to 12.3 billion yuan. Other outstanding taxes, such as industrial and commercial taxes, "two fund" revenue, and arable-land-use taxes, were also quite severe, with the tax arrears in most provinces, municipalities, and regions throughout China up somewhat from the same time in 1992, already having become a key factor impacting national tax revenue.

While we certainly do not mean to be alarmist, if this goes on for long, national tax-revenue losses will become a "Bermuda" that swamps the Chinese economy. So stopping up these black holes of national tax-revenue losses has become a task of top priority!

As to the causes of such severe national tax-revenue losses, in addition to factors, such as the longstanding relatively poor taxpayment awareness of our citizens, the distortion of the human spirit by the commodity economy, and the ideological trend of "money-worship," there are also other key factors, such as our current tax system being unsuited to the needs of a market economy, our still imperfect financial system, and our unsound taxation legal institutions. At a recent national working meeting of tax department directors, the participating delegates were unanimous that our current tax system is unsuited to the needs of our socialist market economy, with the glaring expressions being unfair tax burdens, taxes not being uniform, our tax system not being streamlined, and tax collections not being rigorous.

The key to plugging up these black holes of national tax-revenue losses is "suiting the medicine to the illness," by conducting reforms in three areas.

1. We need to reform our tax system. Our backward tax system has become a hotbed of revenue losses to the point where it absolutely must be changed. The current

priorities should be to reform three taxes: We need to reform our enterprise income-tax system, standardizing the distribution relations between the state and enterprises, to provide enterprises with a climate of equal competition; we need to reform our flow-tax system, aimed at the principles of fairness, neutrality, transparency, and universality, to form ubiquitous tax-distribution forces in the fields of production and circulation, in the interests of an optimum disposition of resources; we need to reform our personal income-tax system, setting up new public-regulation mechanisms; and we need to establish a local tax system to strengthen the Center's macroeconomic regulation and control capability.

2. Meanwhile, we also need to rationalize our fiscal system. Our current package fiscal system has many defects, such as tax reductions and exemptions, and contract flow-taxes, which means of violating national tax laws are created by our irrational system. Central and local interests are not rationally delimited, with many phenomena, such as localities and departments "flying by the seat of their pants," occurring repeatedly, resulting in a weakening of Central financial macroeconomic regulation and control capability. The way to resolve this is to institute as quickly as possible a tax-separation system, with a graded fiscal system, to rationally adjust Central-local profit relations.

3. In addition, we also need to establish as quickly as possible a system of sound tax legal institutions. As a market economy is a legal one, establishing a sound tax-law system, and insisting on tax control in accordance with law, is a necessary guarantee for bringing the role of tax leverage into full play. China has not yet formed mechanisms of mutual independence and restraint among tax legislation, adjudication, and execution. In addition, as our current tax laws lack solemnity, uniformity, and authority, it is hard to prevent arbitrary breakdowns in actual work, with laws either not complied with or enforced laxly, resulting in general and merciless disrespect for tax laws. A task of top priority is to establish as quickly as possible a tax-law system with a tax-base law as the mother law, and with related entity, procedural, and organizational laws.

In short, our national tax-revenue losses are due to a lack of respect for national taxation! But we firmly believe that in the near future, China's taxation field will be bound to clear up, which we are looking forward to!

#### **Financial Reform Appealing But Difficult**

94CE0666A Beijing JINGJI CANKAO BAO in Chinese  
20 Jul 94 p 1

[Article by Li Wenchuan (2621 2429 1557): "Implementation of Financial Reform Encounters Difficulties"]

[Text] There is no doubt that funds are the lifeblood of an economy.

People with an interest in the Chinese economy have noticed that the banking industry, the main controller of the lifeblood of the Chinese economy, is now undergoing the most wrenching change in its history. A system epitomized by receiving and paying out money and bills under the traditional planned economy is evolving into a new system characterized by fund commercialization which meets the needs of creating a socialist market economy. The battle has just begun.

Authoritative sources say that this battle will result in revolutionary changes not only in the banking industry but also in China's economy.

#### **Clear Blueprint, Good Beginning**

Financial reform measures already unveiled make up a clear and detailed blueprint.

- The principal task is to change the functions of the People's Bank in order to turn it into a genuine central bank. As a central bank, its primary responsibilities are to scientifically formulate and implement a monetary policy, maintain the basic stability of the currency, and strictly monitor financial institutions.
- Converting specialized state banks into bona fide commercial banks lies at the heart of financial reform. The process involves these steps. First, set up banks whose function is to achieve policy objectives, thus hiving off from the existing specialized banks their policy-related business. Then remake existing specialized banks in accordance with the universal principles of operating commercial banks.
- Develop a system of cooperative banks diligently but cautiously, including urban cooperative banks and rural cooperative banks. People in the banking community sum up the objectives of the latest round of financial reform as follows: use the rate of return to guide investment, use deposits to hold down lending, use the law to regulate behavior, use the money supply to regulate and control overall volume.

According to information from authoritative sources in financial agencies, after overcoming one obstacle after another, substantial progress has been made since the first half of this year in a number of new financial reform measures referred to as "critical moves" by some government departments.

With the State Council's approval, the People's Bank has written and issued a series of new management rules and regulations, including "Credit Funds Management Measures," "Provisional Supervisory and Control Targets for Application of Assets to Liabilities Ratio Management to Commercial Banks," and "Provisional Regulations on Capital and Assets Risk Limits of Commercial Banks."

After the Treasury stopped borrowing and making overdrafts from the People's Bank of China [PBC] this year, the principal means through which the PBC regulates the

basic money supply are buying and selling foreign exchange, opening market businesses, and lending to the central bank. As a pilot project, the PBC recently set up in Shanghai, the financial metropolis, central bank open market trading offices and Chinese foreign exchange trading centers. Taking a leaf from the book of their head office, branches of the PBC are currently also shifting their emphasis from allocating funds and dividing the scale of lending to doing a good job in macroeconomic regulation and control and tightening financial supervision and regulation, and to research and studies.

The National Development Bank was set up in late March this year, its foremost responsibility being the regulation of the total amount of fixed assets investment by controlling the sources of funds. On 1 July, the China Import-Export Bank opened for business. Its purpose is to provide policy-based financial backing to boost the exports of capital-intensive goods such as electrical machinery products and whole plants. Planning for another policy-oriented bank, the China Agricultural Development Bank, is also in full swing. These moves constitute a critical step in the conversion of specialized banks into state commercial banks. What is particularly worth mentioning is that Premier Li Peng [2621 7720] introduced a bill by the State Council entitled "People's Bank of China Law" for examination and approval by the standing committee of the Eighth National People's Congress at its eighth meeting on 28 June. The law will be another powerful patron saint for the successful implementation of financial reform.

That the latest round of financial reform is off to a good start has a lot to do with the valuable experience of a host of commercialization pioneers in the financial circles. In July 1986 the Communications Bank reorganized itself with the approval of the State Council, unfurling the banner of commercialization. Soon a bunch of up-and-coming banks did likewise, including Zhongxin Industrial Bank, Shekou Merchant Steam Navigation Bank, Shenzhen Development Bank, Fujian Industrial Bank, Guangdong Development Bank, Guangdai Bank, and Capital Iron and Steel Huaxia Bank. According to statistics, the combined assets of these eight banks top 210 billion yuan. Shanghai Pudong Development Bank opened its door for business with much fanfare on 9 January this year, joining the ranks of other commercial banks.

Despite problems here and there, the rise of these commercial banks has set an example for other banks as they struggle to create a new mechanism and search for new ways of doing business.

#### **Problem: Foreign Concern and Internal Trouble**

In China, the four leading specialized banks, namely the Bank of Industry and Commerce, Bank of China, Agricultural Bank, and Construction Bank, account for more than 80 percent of all credit funds in the nation. The opening salvo in the latest round of financial reform is to



convert specialized banks, semi-official and semi-commercial or both official and commercial, into bona fide commercial banks compatible with the socialist market economy which exercise decision-making authority in their operations, are solely accountable for their own profits and losses, assume the risk themselves, and balance their books on their own. The presidents of the various banks are confident that they can pull this off. On the other hand, they are also worried about the present situation.

The first thing that concerns them is the external environment for the financial industry.

The State Council decided that beginning 1 July 1983, working capital at the disposal of state enterprises should come under centralized bank management. This decision marked a new milestone in the reform of the fund management system in China. However, the way things have turned out deviates sharply from the original intent behind the decision. It has been a dozen years since structural reform began, yet the "eating-from-the-big-rice-pot" fund management system has not changed in a fundamental way. During the past few years, not only did banks operate as the sole source of enterprise funds, but a large amount of credit funds also went toward closing the government budget deficit. Many bank loans have not been repaid.

According to official statistics, between 1984 and 1988, the self-working capital of state industrial enterprises within the budget increased a mere 2.8 percent and their realized profits and taxes edged up just 69.6 percent. During the same period, however, the working capital loans of state banks increased 1.26-fold. Conservative estimates put the total amount of bank credit funds nationwide at over 100 billion yuan, including enterprise working capital, long-term material reserve funds, and key construction funds, which should have come from the treasury as part of the government's budget. Not only has this swelled investment demand, but it has also seriously diminished the mobility of the credit funds of state banks and greatly reduced their repayability. Between January and May last year, all four leading specialized banks lost money, a direct reflection of the increasing riskiness of bank lending. The fact that we remain wedded to the pursuit of fast economic growth will make it that much harder for the central bank to achieve its paramount objective: stabilizing the currency.

Another glaring sign of the immense difficulties of financial reform is that the banks' own management system and management standard are a far cry from what reform demands. Financial reform so far has left the banking system largely intact. In the traditional financial system, the emphasis was on policy finance, which means the People's Bank determined how much money each specialized bank was allowed to lend at what rates, and the basic lending priorities. Specialized banks eat from the big rice pot of the state, in the same way that

enterprises do. No matter how many bad loans a loan officer has made, his personal interests will not be affected. For this reason the banks typically have a higher proportion of delinquent assets than as the case among major international banks. All this deviates from the principles by which commercial banks should be run.

Financial laws and regulations are the patron saint for the successful implementation of financial reform. As far as fund management is concerned, it is not that there are no rules for banks to follow. The law of the land states explicitly that "a person who causes economic losses in excess of 50,000 yuan because of bureaucratism or dereliction of duty shall be held criminally liable." Regrettably people who have been punished for dereliction of duty in fund management are few and far between, so much so that we have now reached a stage at which the law is not doing its job of ensuring that guilty people are punished. Besides, the promulgation of key pieces of financial legislation, much anticipated, including "Banking Law," "Bill Law," and "Securities Law," has been delayed again and again.

Accordingly seasoned financial figures believe that while financial reform is the trend of our times, it is imperative that we create a relaxed environment for it. For instance, it should proceed in tandem with enterprise reform, government organizational reform, property rights reform, and fiscal and tax reform. Financial reform cannot get ahead of the other reforms, much less fall behind them; instead it should keep pace with them. Say there is a car which performs excellently. The destination too is most attractive. But if the road is in a state of extreme of disrepair, the car may easily overturn and not reach the destination. Financial reform is like fixing the roads of the entire economy.

#### Social Consciousness and the Ultimate Banking Law

As the experts see it, the latest round of financial reform involves the interests of every quarter. We need to work hard on the levels of social consciousness and legislation, at the same time paying attention to methods of operation.

To instill a correct financial consciousness in all society, we must begin by cultivating a sense of financial stability. As the depository of social funds, finance occupies a pivotal place in the national economy. It discharges the critical responsibility of stabilizing the currency and is the last defense against economic instability. Second, we must develop a sense of trust in the financial system, the bulk of the money in the banks consists of the masses' savings deposits. How much of them can be spent is determined by the level of economic development. If we put too much money into circulation, we devalue the currency. Banks' credit is simply repaying principal plus interest. The proliferation of new financial instruments such as bonds, stock, and futures give people more opportunities to make money along with a corresponding increase in risk. They must be watched closely.

Thus, our top priorities now are to change government functions and replace the "blood" relationship between banks and enterprises with one of economic cooperation and partnership based on trust. Meanwhile, the financial system itself should start thinking in terms of profitability and service and work hard to upgrade its own management standard.

Thus far, what we have by way of financial legislation is only a bank management regulation, not a coherent body of laws. People in the financial community call for the revision and promulgation as soon as possible of the ultimate financial law—"The Banking Law"—as well as coordinated legislation necessary for the growth of the banking industry—the "Bill Law," "Securities Law," and "Investment Law"—so that there is a legal basis for financial affairs and that the industry can thrive without going out of control.

Because of China's vast size and imbalances in economic development, experts caution against pushing ahead with financial reform across the board with undue haste. Instead, they recommend a policy of individualized treatment and classified guidance. In addition, to set up a financial system compatible with the market economy, we must consider the horizontal circulation of funds. The absence of appropriate short-term fund-raising channels in the huge private economy, for instance, will also emerge as a severe constraint on successful financial reform, even successful economic reform as a whole.

The experts also remind us of an existing, worrisome phenomenon, namely that while we already have a general blueprint on financial reform, many detailed implementation methods have failed to keep pace. Their failure to keep up may affect normal economic life. Assets to liabilities ratio management, now widely used guided by lending limits, still retains a strong flavor of the planned variety of fund management. While there may be no alternative to this arrangement, how is it to be meshed with the market economy is still a major issue that will require much detailed work on the part of policy-making agencies. Furthermore, that the People's Bank should tighten the supervision and management of financial institutions is an important goal of financial reform. But who should bear the costs of the lost assets of banks, which have myriad ties to the financial system and government departments, when we order their abolition. That too is a headache.

The burden is heavy and the road is long. Such is the keynote of financial reform as a whole.

#### **New Tax System Shows Positive Results**

94CE0664B Beijing JINGJI CANKAO BAO in Chinese  
15 Jul 94 p 1

[Article by Wang Yinghui (3769 6601 2547) and Li Linjun (2621 2651 5511): "The New Tax System Begins To Play a Leverage Role After Six Months of Operation"]

[Text] With the Creation of a Climate of Excellence, Some Industries Are Seeing a Trend of Production Focused in Brand-Name Factories

With Heavier Tax Burdens, Expensive Consumer Goods Industries Begin To Adjust Product Mix on Their Own Initiative

Having been in operation for six months, the new tax system is starting to show signs of playing a leverage role in macroeconomic regulation and control. The results of a recent survey of some provinces and regions by the State Tax Administration show that the new tax system is spurring some enterprises to adjust their industrial structures and product mixes.

1. The new tax system has accelerated the structural adjustment of local industries, focusing production in brand-name enterprises. The new tax system has eliminated tax reductions and exemptions for straitened circumstances and special considerations, curbing local tax protectionism, creating an external climate of fair competition for enterprises, and inevitably resulting in excellence. Taking the cigarette industry for instance, a certain north China province used to run many cigarette factories. While their economic efficiency was not ideal, localities granted them a preferential policy of many tax reductions and exemptions, enabling these small cigarette factories to get by. But since the new tax system went into effect, these small cigarette factories that were dependent on a policy of reductions and exemptions to get by have generally sustained severe losses, forcing local governments to adjust their industrial structures, by reducing the output of small cigarette factories and entrusting the remaining production targets to brand-name cigarette factories, to reduce losses, strive for joint development, and share in the profits. By mid-May, the cigarette factory in Yuxi Yunnan had been assigned cigarette production quotas by seven provinces and regions throughout China, changing at once its situation of "operating under capacity," and forcing it into high gear for rapid growth. The experts predict that at its current growth momentum, the Yuxi cigarette factory's taxes will grow at an average rate of 20 percent a year, possibly topping 20 billion yuan by 1997. Meanwhile, more small cigarette factories will be forced to shut down.

2. The new tax system has pushed enterprises to adjust their product mixes and improve their economic efficiency. Some of the tax categories in the new tax system have played the special role of spurring enterprises to switch from a dependence on government to a market orientation and adjustment of product mix. For instance, Chongqing has the two large motorcycle-production enterprises of Jialing and Jianshe. Before tax reform, while certain old models were no longer competitive, their lighter tax burdens left them still profitable, so that they did not adjust their product mixes. But the new tax system changed the taxation of motorcycles from the former payment of only value-added taxes to

the payment of both value-added and consumption taxes, clearly increasing the tax burden. So the two enterprises conducted market analyses, quickly adjusting their product mixes. The Jianshe Company cut back its former planned production of 50-cc motorcycles from 300,000 to 180,000, increasing that of its 80-cc bikes from 200,000 to 300,000. And the Jialing Company cut back its output of 50-cc bikes, making more 70-cc-plus ones, so that despite the heavier tax burden, its profits are predicted to be 20 million yuan higher in 1994 than in 1993.

3. The new tax system has spurred enterprises to look inward to lower costs. For instance, the cigarette factory in Shifang Sichuan, while enjoying many local tax reductions and exemptions before, now has a real tax burden up five points since tax reform. But instead of placing the blame elsewhere, it intensified its technological upgrading instead, reducing its material consumption and lowering its costs, reducing its material consumption per carton of cigarettes 18.16 percent and its costs 17.23 percent, while raising its quality index 4.5 percent.

### Treasury Bonds Sold Successfully

94CE0604A Beijing JINGJI RIBAO in Chinese 5 Jul 94  
p 1

[Article by reporter Qian Fengyuan]

[Text] When 100 billion yuan's worth of treasury bonds were sold on target at the end of June this year, many people concerned with treasury bonds felt as if relieved of a heavy load. Indeed 14 extraordinary years have passed since China resumed issuing treasury bonds in the early 1980's. People need only glance back to discover that 1993 was the most difficult year in treasury bond sales, while this year is the smoothest. What can we see in such a sharp contrast?

More and more people acknowledge that whether China's treasury bonds can sell smoothly hinges not simply on the fluctuation of interest rates but is fundamentally tied to the macroeconomic situation and the financial order. Since the late 1980's, when treasury bonds were gradually turned into a transferable instrument and began to be circulated on the market, their constantly changing trading pattern has reflected the different macroeconomic environments through the years. From 1988 to the end of 1989, the treasury bond market turned bearish (with far more sellers than buyers), transactions went flat, and selling prices dropped very low. A high inflation rate and a rise in the interest rates for bank deposits at the time caused people to rush out to sell treasury bonds in their possessions.

From 1990 to the first half of 1992, prices were up and the market was brisk. In April 1990, with the implementation of the state's macroeconomic readjustment and control measures, commodity prices returned to normal, interest rates for bank deposits began to drop, demand for two-year treasury bonds rose, and transactions at

bond brokerages became stable. In May 1990, the state began to allow several kinds of treasury bonds to go on the market, thereby enlivening the market. From the second half of 1992 to the beginning of 1994, the market turned downward again, transactions were slack, and a big gap formed between supply and demand. Prices for treasury bonds issued in 1992 were still under par one year later, while in 1993 treasury bonds fell below par as soon as they went on the market after repeated extensions of their selling periods. The difficulty in selling treasury bonds and the sluggishness in their transactions at this time reflected some hidden concerns deep-seated in China's economy then.

Based on surveys experts estimated that in 1993 from February to April alone, funds raised by enterprises throughout China amounted to 100 billion yuan. Since 1992, affected by the investment fever, demand for investment in fixed assets and corresponding operating funds has risen sharply. In 1992 the total social investment in fixed assets in China was 785.5 billion yuan, up 42.6 percent from the previous year. In the first eight months of 1993 alone the total investment in state-owned fixed assets increased 68.5 percent, while the year's gross total greatly exceeded the projected 800 billion yuan. Meanwhile, within the financial establishment, huge sums of money were illegally lent through the inter-bank short-term credit market, or went through affiliated economic entities, to be used in the speculation of stocks and real estate, thereby further worsening the insufficient supply of funds.

Since the state's macroeconomic readjustment and control measures were put into place, the financial order has improved and noted changes have taken place in many aspects of China's economic life. After a difficult readjustment of the stock market, the excessive speculation that recurred frequently in the past was checked, and the composition of listed companies began to improve, with medium and small processing industries and commercial companies—those that can be manipulated easily—giving way to energy, communication, raw materials, and other basic industries and bottleneck industries. The high-risk mechanism intrinsic in the stock market gradually shaped up. Some of the people engaged in the stock market also shifted from speculation toward rational selection. In addition, the frenzy over real estate and development zones began to abate, while reckless fundraising under all sorts of pretexts and the illegal practice of raising funds to issue bonds were put under control. Under macroeconomic readjustment and control, the social economy began to enter a track of normal, orderly development, which helped pave the way for this year's success in selling 100 billion yuan's worth of treasury bonds. The close cooperation between the state financial and monetary departments further fostered an unprecedentedly favorable climate for treasury bond sales this year. The state increased the maturity and variety of treasury bonds, and did its best to offer treasury bonds to the public on favorable terms and with convenience. For instance, two-year treasury bonds were "renewable," and



three-year treasury bonds came with payment certificates [shoukuan pingzheng], similar to Western countries' savings bonds, which could easily be converted into cash and which fetched higher interest rates the longer people retained them. As the time went by, this year saw several achievements in treasury bond sales. The state sold 5 billion yuan's worth of six-month bonds, 8.3 billion yuan's worth of one-year bonds, 27.2 billion yuan's worth of two-year bonds, 60 billion yuan's worth of three-year bonds, and 2 billion yuan's worth of five-year specified bonds. By the end of June, a total of 102.5 billion yuan's worth of treasury bonds were sold nationwide. Competent authorities, brokerages, and urban and rural residents all believe that this year saw no apportioning but a new atmosphere and pattern in treasury bond sales, and is the most successful in 14 years.

### Financial Control Measures Need To Continue

94CE0705B Beijing JINGJI CANKAO BAO in Chinese  
28 Jul 94 p 1

[Commentator article by Ding Jianming (0002 1017 6900): "Financial Regulation and Control Needs Continued Tightening"]

[Text] "Macroeconomic regulation and control" has been a key item in China's economic activities since the last half of 1993. And finance [banking], as a key lever in the macroeconomic regulation and control of our national economy, has been playing the major role in this.

On 5 July 1993, a national working conference on finance was held in Beijing. This conference firmly implemented a series of key policy decisions by the Party Central Committee and State Council on tightening macroeconomic regulation and control, planning a series of policy steps to rectify our financial order, enforce financial discipline, push forward with financial reform, and tighten financial macroeconomic regulation and control.

Vice Premier Zhu Rongji, concurrently PBC president, pointed out that rectifying our financial order and enforcing financial discipline to reverse our financial chaos is now the key to tighter regulation and control. So he emphasized that the banking sector needs to enforce "a few simple rules to be observed by all concerned," immediately stopping and conscientiously clearing up all illegal lending; no financial institutions may covertly raise deposit and loan interest rates, to engage in a "savings war;" banks must completely delink themselves from economic entities that they run.

Meanwhile, the central bank has put into effect several crucial regulation and control measures.

Since 11 July [1993], it has raised all bank deposit and loan interest rates, while clearing up compensated fund-raising activities, and firmly stopping all arbitrary fund-raising; it has strictly controlled overall credit, centralizing the authority to regulate lending in the PBC head office, with relending, except for that used for purchasing

farm and sideline products, being mostly by the PBC head office to specialized bank head offices; it has further improved securities issuing and standardized market management; it has improved its foreign exchange management methods, setting deadlines for the use of retained foreign exchange quotas and cash to prevent hoarding of foreign exchange for speculation. Beginning in July [1993], the central bank first entered the foreign exchange market, using economic means to curb exchange rates....

When these financial macroeconomic regulation and control steps were first taken, some were concerned that they might cause a sharp economic decline, thus impacting the normal operation of our national economy.

But in fact, this financial macroeconomic regulation and control adopted not the historical method of tightening credit, but rather structural adjustment instead. Banks tightened the fund-supply gates for unchecked real estate market development, low-level and inefficient development zones, and duplicate construction projects, focusing funds in support of national priority construction, farm and sideline product purchasing, foreign trade exports, and efficient enterprises, supporting the production and operation of large and medium-sized state enterprises.

Since 1994, premised on strict control of overall credit and fixed assets loans, the central bank has been using more flexible regulation and control policy methods. In addition to focusing funds to guarantee priority construction, farm and sideline product purchasing, foreign trade exports, and the production operations of efficient enterprises, as to working capital loans, it has promptly and discriminatingly poured funds into state enterprises, helping them to smooth over their difficulties. In the first half of 1994, state bank loans were up 80 percent from the same period in 1993, with the lending rate accelerating monthly, particularly since March. To ease the working capital shortages experienced by many state enterprises, working capital loans have been increased sharply. The data for the first half of 1994 shows that state bank loans were up 180 billion yuan from the beginning of the year, up more than 80 billion yuan from the first half of 1993, including working capital and farm loans up 51.6 billion yuan.

A host of facts show that in the year since we instituted this financial macroeconomic regulation and control, our financial macroeconomic regulation and control results are obvious.

1. We have made clear progress in controlling the chaos, stabilizing our financial situation. In the first half of 1993, our money supply growth rate set a record at 54 percent, while bank savings deposits growth declined steadily, with our savings deposit balance for March actually down 4.5 billion yuan. But after we began to exercise financial macroeconomic regulation and control in July, our currency issue decreased monthly, with 29.8

billion yuan less put into circulation from July through November than in the same period in 1992, and our 1993 currency issue controlled at 152.9 billion yuan, for lower growth than in 1992. Our individual savings deposits also experienced a sharp rebound, up 106.2 billion yuan for July through November alone over the same period in 1992, and reaching 321.8 billion yuan for 1993, for a record year. In the first half of 1994, our financial situation continued to improve, with currency withdrawn from circulation, while savings deposits retained their sharp growth momentum. In the first 6 months of 1994, banks withdrew from circulation a net of 8.3 billion yuan in currency, while savings deposits were up 314.6 billion yuan, further raising bank payment capability. Our market exchange rate has also essentially stabilized. In the first half of 1993, the exchange rate of the dollar to the RMB on our foreign exchange conversion market reached a high of 1 to 11, which stabilized by year's end at 1 to 8.7. In 1994, the RMB exchange rate is even experiencing a certain rebound.

2. The cooling down has begun to work, with our national economic hypergrowth beginning to slow somewhat, and production and investment experiencing a smooth fallback. In the first half of 1993, our industrial production growth rate reached a high of 25.1 percent. But beginning in July, this excessive industrial growth rate began to fall back, declining 5.1 points in July from June, falling back to 19.5 percent for 1993, and continuing to recede to 15.8 percent for the first half of 1994. Our fixed assets investment growth rate also fell back from 61 percent at the end of June 1993 to 25.2 percent by the end of June 1994, with new capital construction and upgrading project starts down 20 percent from the same period in 1993. In addition, our priority construction fund supply has been ensured. By the end of 1993, our priority construction fund arrival rate had reached 99 percent, topping 50 percent for the first half of 1994, far higher than its 19.2 percent for the first half of 1993.

But it also needs noted that the deeper conflicts and problems in our national economic operations have certainly not been essentially resolved. In particular, inflationary pressures have not yet abated, with our money supply growth rate in the broad sense still quite high. While our fixed assets investment scope has been controlled, certain local governments and departments are still full of drive to start projects, with consumption fund growth very brisk. And while certain conflicts in our industrial economic operations have eased somewhat, product sales are certainly not ideal. All of this means that we need to keep cool heads, continuing to tighten and improve our financial macroeconomic regulation and control.

Tighter financial macroeconomic regulation and control at present needs to proceed particularly from a stable currency and anti-inflationary measures, with adherence to strict control of overall credit, resolute control of fixed assets loans, and a policy for working capital loans of continued dealing with each case on its merits and making timely adjustments. Meanwhile, we need to firmly prevent the recurrence of phenomena, such as all forms of arbitrary fundraising, arbitrary lending, and unauthorized raising of interest rates. Only in this way can we consolidate and develop the successes that we have achieved in financial macroeconomic regulation and control, to ensure the sustained, brisk, and sound growth of our national economy.

## Industry

### Statistics on Textile Output in July

HK0209015494 Beijing CEI Database in English  
1 Sep 94

[Text] Beijing (CEIS)—Following is a list of the output of textiles in July 1994, released by the State Statistical Bureau:

Item	Unit	7/94	7/93
Yarn	10,000t	41.55	41.60
Yarn	10,000pc	231.23	232
Cloth	100m.m	15.58	15.67
Of: Pure cotton	100m.m	8.56	9.80
Chemical fiber	100m.m	2.23	1.65
Silk	10,000t	0.83	0.78
Silk fabric	100m.m	2.94	2.37
Woolen fabric	10,000m	2147.84	2080
Knitting wool	10,000t	2.42	1.94
Garment	100m.pc	3.42	2.83

Note: t—ton, pc—piece, m.m—million meter, m.pc—million piece

This report contains information which is or may be copyrighted in a number of countries. Therefore, copying and/or further dissemination of the report is expressly prohibited without obtaining the permission of the copyright owner(s).

### Statistics on Gross Industrial Output Value in July

HK3108133294 Beijing CEI Database in English  
31 Aug 94

[Text] Beijing (CEIS)—Following is a list showing China's total industrial output value in July 1994, released by the State Statistical Bureau:

	7/94	7/93
	(In 100 million yuan)	
Total	3373.02	2862.9
Including:		
Light ind.	1606.42	1309.3
Heavy ind.	1766.59	1553.6
State firms	1454.83	1478.0
Collectively owned ones	1310.80	1050.3
Others	607.39	334.6

Note: The industrial output value is measured in 1990s constant yuan.

### Interview With Lu Jiang on Material Supply Enterprises

94CE0669A Beijing ZHONGGUO WUZI BAO  
in Chinese 22 Jul 94 p 1

[Interview with Vice Internal Trade Minister Lu Jiang by Bi Ling (3968 3781) and Zhang Guotong (1728 0948 6639); place and date not given: "Vice Internal Trade Minister Lu Jiang Answers Our Reporters' Questions on Current Situation of Material Supply Enterprises"]

[Text] This year business of state-owned material supply enterprises has declined considerably with a big drop in sales and economic returns. What are the main reasons for this grim situation? How should we view our macro-economy this year? How should state-owned material supply enterprises bring themselves out of the current difficulty? With these questions, we interviewed Lu Jiang, vice minister of internal trade.

[ZHONGGUO WUZI BAO] All along, state-owned material supply enterprises have served as a main channel for the supply of materials in our country and played a significant role in spurring our national economic development. This year, however, they have experienced difficulties in doing their business. Would you please comment on this question?

[Lu] For a long time, state-owned material supply enterprises have shouldered the important task of ensuring the supply of principal capital goods to meet the needs of the nation's key construction projects, state-owned big and medium-sized enterprises, agricultural production, anti-disaster and relief work, defense industry, and the people's everyday life. Especially since the start of the reform and opening-up, with the drastic reduction each year of materials subject to planned distribution, they

have made positive efforts to reform themselves and gone all out to develop market-oriented operations, thereby contributing significantly to the fast and healthy development of our national economy. Statistics show that between 1981 and 1993 the profits turned over to the state and tax payments made by material supply enterprises nationwide amounted to 47 billion yuan, and they supplied 30-60 percent of the needs for principal items, including rolled steel, nonferrous metals, lumber, and automobiles. In 1993 the sales volume of these enterprises totalled more than 675 billion yuan, and the profits turned over to the state and tax payments reached 5.83 billion yuan. This is indicative of their great achievements in conducting the reform as well as their enormous contributions to the state during the past decade or so.

Since the beginning of this year, however, state-owned material supply enterprises have indeed experienced unprecedented difficulties in operation. From January to June, purchase made by state-owned material supply enterprises throughout the country totaled 182 billion yuan, and sales 198.2 billion yuan, down by 43.6 and 42.2 percent respectively from last year's corresponding period. Their losses amounted to 1.24 billion yuan, a colossal deficit which had not been seen in the past years. In particular, the quantitative drop in sales was even greater than the monetary drop, and a drastic reduction is noted in the materials supplied by these enterprises to the nation's key construction projects. The share of market enjoyed by them declined from last year's 32.9 percent to 16.4 percent. What deserves attention is that the above situation appeared at a time when our nation's industry grew at a rate of 18.8 percent, fixed-asset investment increased 37.5 percent, and total capital goods sales rose 16.1 percent. This means that the role played by state-owned material supply enterprises as the main supply channel has diminished. In fact, a number of them have met with new problems in striving for survival and development.

[ZHONGGUO WUZI BAO] What has caused the big drop in the economic returns and market share enjoyed by state-owned material supply enterprises? What is your comment on this?

[Lu] There are numerous reasons for the above-mentioned situation. As far as the external environment is concerned, I think the following are the main reasons: Firstly, with the exception of a few items, supply of capital goods has exceeded their demand this year, resulting in sluggish purchases and sales. From last year to this year, a rather big change has appeared in our national economy. Between January and June, total investment in fixed assets increased 37.5 percent, way below the 70.7 percent growth rate registered a year ago. What is more, many of this year's fixed-asset investments are carried-over projects from last year, which do not require large quantities of building materials. This has resulted in a relative reduction in the effective demand for capital goods in our society. With regard to



some materials like rolled steel, we have imported too much, and domestic production has also increased. As a result, production enterprises and material supply enterprises both have excessive stocks and cannot sell them off. In other words, supply of these materials has exceeded demand. On the whole, the market for capital goods, except for a few items, has changed from a seller's market to a buyer's market. Secondly, we have devoted more effort this year to reforming our financial, taxation, and foreign-exchange systems. Material supply enterprises have yet to adapt themselves to these new systems, especially the new tax system. Because of the late promulgation of the detailed tax regulations, they were at a loss about how to operate properly, thus affecting their business in the first quarter. The third reason is the increasing competition in the capital goods market. In particular, production enterprises have accelerated their pace in forming an integrated system covering production, supply, and sales and in developing the tertiary industry. They have vied to set up their own sales departments so as to put their products directly on the market. According to statistics, direct sales made by production enterprises between January and June this year accounted for 63 percent of the total sales on the market as against 43.6 percent last year. Meanwhile, there has been a considerable increase in individually owned and partnership enterprises engaged in material supply. For instance, Wuxi City had some 2,000 such enterprises in 1992. In 1993 the number soared to over 10,000. Material supply has become a trade characterized by keen competition, and the most impacted are state-owned material supply enterprises.

[ZHONGGUO WUZI BAO] Besides the influence of the external environment, what are the other reasons in your opinion?

[Lu] There are two main reasons within the enterprises themselves. One is that the enterprises have miscalculated the amount of effort that the state would devote to macro-regulation and control. This has caused them to formulate erroneous business policies. In the first half of last year, material supply enterprises took in a large quantity of goods. Thus, after the macro-regulatory and control measures were put into effect in the second half of the year, most of these goods were stocked in the warehouses. In addition, at the end of last year, most enterprises made an over-optimistic forecast of this year's market and, accordingly, purchased a lot of high-price materials. In January this year when the market was rebounding, some enterprises again procured more supplies. Now, the rolled steel held in stock by material supply enterprises has reached some 8.5 million tons. Overstocked materials already constituted a hidden deficit last year. This year, because of the sharp decline in the price, every ton of rolled steel sold would inflict a loss on the enterprise concerned. Under these circumstances, however, many material supply enterprises still use their previous mindset and experience in analyzing the market, thinking that market demands will pick up sooner or later and at that time they can make up for

their present losses. With this thinking, they cherish a wait-and-see mentality. They are waiting for the relaxation of the macro-regulatory and control measures, for the availability of funds, and for a price hike with the illusion that changes in the external environment will give them an opportunity to make a big profit. The second reason is that for a long time in the past material supply fell short of demand, and state-owned material supply enterprises used to do business in a seller's market. They were basically in a state where if they could take in some goods, they would make a profit. Because of this, their major work plans, organizational setup, personnel structure, and fund allotment were all aimed at taking in more materials, while only inadequate attention was paid to establishing a wide-scale selling and marketing network and maintaining stable connections with customers. This year the macro-environment is characterized by a buyer's market. They have begun to feel that their original business idea, operational method, and enterprise structure are no longer suitable, that their service cannot meet the requirements, and that their strategies are inadequate. In addition, they have neither the favorable conditions of production enterprises in terms of resources, funds, and prices nor the advantage of individually owned and partnership enterprises with respect to mechanisms for flexible operations. All this has placed state-owned material supply enterprises in a disadvantageous position in market competition.

[ZHONGGUO WUZI BAO] What is your view on the material market in the second half of this year?

[Lu] In the first half of this year, our macro-regulatory and control measures for material supply achieved initial results. Both the excessive fixed-asset investment and overly high industrial growth rate were brought down to a fairly big extent. Various reform measures were put into force without a hitch. All these laid a good groundwork for our economic development in the second half of the year. On the other hand, however, the price index has grown by 19.8 percent. This means that ensuring a stable market, controlling the price hike, and curbing inflation will still be our major tasks for the second half of the year. Although circulating funds for enterprise operations will not be so tight, the state will not reduce its macro-regulatory and control efforts with respect to material supply. So, on the whole, no big change is expected in supply and demand on the capital goods market. Material supply enterprises must have a clear understanding of this.

[ZHONGGUO WUZI BAO] Recently you have said that state-owned material supply enterprises should "know the situation well, brace up, deepen the reform, and meet challenges." We understand that comrades in the material supply trade in various localities believe what you said is a realistic suggestion. Then, how should they face the present situation?

[Lu] This year state-owned material supply enterprises have met with great difficulties. This is unprecedented.

Given such a situation, however, most localities have remained firm and taken a number of positive, effective measures to solve the difficulties, though a few of them cherish a wait-and-see mentality. It should be noted that the problems experienced by state-owned material supply enterprises this year are generally problems encountered in the course of advance and development. The fact that they were able to sustain this severe test in the first half of the year indicates the great success of our efforts over the past few years to deepen the reform of these enterprises, transform their operational mechanism, lead them to march toward the market economy, and boost their capabilities. Otherwise, it would have been very hard for them to tide over the difficulties in the first half of this year. What is commendable is that, despite this year's grim situation, some enterprises have maintained their booming business and scored good returns by persisting in the reform and taking effective measures to cope with the situation. An example is the Tianjin Material Supply Group Corporation, which made a profit of 68 million yuan during the January-June period. In Shanghai and Zhejinag, no loss has been reported by our material supply enterprises. In view of this, we have no reason to be pessimistic. Of course, we have no time to wait either. What we should do is to know the situation well, brace up, deepen the reform, and meet challenges. Only thus can we go out of the current predicament.

[ZHONGGUO WUZI BAO] In your opinion, what measures should be taken to bring state-owned material supply enterprises out of the present difficulty?

[Lu] We should make a strenuous study of the concrete measures to be taken. In particular, it is imperative to sum up the successful experience and methods in various localities. There is one thing I can say with certainty: If we do not make all-out efforts to deepen the reform, it will be very hard to solve the problems. In my opinion, the urgent tasks before state-owned material supply enterprises are as follows:

First of all, they should pay attention to macroeconomic analysis. They should use the correct analysis of the macroeconomic situation to guide their microeconomic activities. At present, it is especially necessary to know that the state's macroeconomic regulation and control will help create a macro-environment for the sustained and stable development of the national economy and, from a long-term viewpoint, is also conducive to the development of material supply enterprises. This is because in such a macro-environment, material supply enterprises will be able to achieve a new development. However, they should be sober-minded to know that the abnormal business growth that occurred in the first half of last year will not come again, nor will the days reappear when they could reap a big profit through a single transaction.

Second, it is imperative to take the restructuring of enterprise organization and the raising of capability of

large-scale operations as a strategic measure. We must understand that with the accelerated progress toward a market economy and the rapid development of the trend of industrial enterprises marketing their own products, if there is no change in the present state of small and scattered material supply enterprises and if their scale of operations is not expanded, they cannot have a place in the market of vehement competition. Big companies should redivide the business power between themselves and their subsidiaries based on the needs of expanding the scale of operations and improving the operating results. Among material supply enterprises, efforts should be made to pool their scattered assets and funds, boost their operational strength, and enlarge their scale of operations through association and amalgamation. Material supply enterprises should adopt measures suited to the market economy to step up cooperation with production enterprises and explore ways to establish marketing alliance with them so as to share risks and profits and achieve common development.

Third, state-owned material supply enterprises should make great efforts to diversify their business. Enterprises with fairly good operating results in the first half of this year had one thing in common: They all did pretty well in diversifying their business. "Taking trade as the fundamental task, relying on sound financial resources, and developing industry to achieve all-round development" is a development idea we proposed several years ago. For state-owned material supply enterprises, the key to success in developing diversified business is to rectify their mindset, choose the correct orientation, and put this task into practice as a strategy for their long-term development. They should not proceed from an opportunistic mentality and cherish the idea of giving up the task after reaping a big profit. On the one hand, they should break through the traditional confine of the material supply business and go into such new fields as high-tech, financing, and real estate industries. On the other hand, they should give full play to their strong points as a specialized trade to serve the needs of society. They should boost and perfect their functions and devote more efforts to expanding their service with respect to material supply. For example, they can supply coal to the power industry in cities, engage in the primary and extensive processing of lumber and steel, and carry out undertakings aimed at the socialization and marketization of warehouses, special railway lines, and so forth.

Lastly, state-owned material supply enterprises should make every effort to promote sales and increase their market share. In the market economy, losing the market means losing the lifeline. For this reason, state-owned material supply enterprises must adjust their business mindset, operational strategy, and organizational structure. They should make all-out efforts for large sales and quick returns at a small profit, vigorously reduce excessive stocks, strengthen internal management, lower supply costs, and improve their service to customers.

One more thing I wish to stress: despite the great difficulty experienced at present, state-owned material supply enterprises should not forget their responsibility to society. They should, on the one hand, exert painstaking efforts to bring themselves out of the difficulty. On the other hand, they should, under the market economic condition, continue to play the leading role of state-owned material supply enterprises in developing the market, stabilizing the price, and helping make the macro-regulation and control of material supply a real success.

As for this year's supply and demand situation and work of material supply, we should continue to conduct in-depth investigations and studies and enhance our guidance to all those in the material supply trade. I believe that as long as the vast numbers of cadres, staff members, and workers of state-owned material supply enterprises know the situation well, brace up, deepen the reform, and close ranks to do strenuous work, these enterprises can certainly get out of the present difficulty and achieve a new development.

**Light Industrial Output Value by Area in June**  
*HK1507142594 Beijing CEI Database in English*  
15 Jul 94

[Text] Beijing (CEIS)—Following is a list of the light industrial output value by area in China in June 1994, released by the State Statistical Bureau:

Area	6/94	6/93	(Unit: 100 million yuan) Change over 6/93 (pc)
Total	1807.72	1514.48	19.4
Beijing	47.99	35.48	35.3
Tianjin	38.11	32.04	18.9
Hebei	56.50	48.01	15.9
Shanxi	14.32	12.64	17.7
Inner Mongolia	12.69	11.69	8.6
Liaoning	62.48	50.04	24.9
Jilin	27.26	23.18	17.6
Heilongjiang	32.87	26.89	22.2
Shanghai	121.17	101.82	19.0
Jiangsu	261.04	237.44	9.9
Zhejiang	177.09	143.07	23.8
Anhui	55.73	44.62	24.9
Fujian	62.48	49.32	26.7
Jiangxi	33.94	26.78	26.7
Shandong	182.72	152.31	20.0
Henan	63.82	48.79	30.8
Hubei	73.30	57.80	26.8
Hunan	42.72	35.23	21.3

Guangdong	256.47	215.37	19.1
Guangxi	26.84	23.10	16.2
Hainan	4.35	4.32	0.7
Sichuan	77.81	66.36	17.3
Guizhou	9.18	7.62	20.5
Yunnan	21.93	19.32	13.5
Tibet	0.16	0.12	33.3
Shaanxi	21.79	19.69	10.7
Gansu	9.58	8.10	18.3
Qinghai	1.80	1.66	8.4
Ningxia	1.73	2.10	-17.6
Xinjiang	9.85	9.57	2.9

**Small-Scale Enterprises**

**Article Warns Rural Enterprises To Be Cautious of Swindles**

94CE0628C Beijing JINRONG SHIBAO in Chinese  
2 Jul 94 p 2

[Article by Xie Hong (6200 7703): "Township Enterprises: Be Careful Of Being Swindled"]

[Text] As one type of pillar industry, township enterprises hold a decisive position in developing the rural economy. However, some enterprises are continuously being swept into black whirlpools in the ocean that is the market economy and are being defeated on the battlefield. Being cheated out of money is one these black whirlpools. According to preliminary investigation by the Taoyuan Country Agricultural Bank in Hunan, since 1991, 20 of Taoyuan's township enterprises have fallen victim to this, losing as much as 2 million yuan this way.

One way of swindling uses small amounts of cash. The swindlers usually pretend to be employees of higher level organs, large corporations, investment enterprises, or State-owned enterprises with solid capital funding, who can exploit their relationships with directors or lower level officials, old colleagues and friends, etc. They forge supporting documents from work units, official stamps, contracts to supply goods, bank notes, valuable securities, etc. They pay a small amount of advance earnest money for the goods as bait, in order to swindle large batches of the commodity. In 1991, the Mingyue Welfare Paper Bag Plant in Changfu signed a purchase agreement with a purchasing agent for the Lunan Plastic Plant in Xiangxiang which stipulated that 2,000 yuan in cash would be paid by the purchaser on the spot, with the balance of the 50,000 yuan price paid after delivery of the goods. The plant immediately sent out 27,000 items of the goods, having a value of 30,510 yuan. After several months, with no payment received, they sent someone to urge payment, and discovered there was no such plant in Xiangxiang at all.

This report contains information which is or may be copyrighted in a number of countries. Therefore, copying and/or further dissemination of the report is expressly prohibited without obtaining the permission of the copyright owner(s).



A second swindle involves signing a contract using a false name. The swindlers sign contracts with enterprises and cheat them out of products by establishing fake accounts or by using the stamp of a "suitcase" company. Eleven enterprises in Taoyuan County were swindled out of 732,700 yuan in this way, which was 36 percent of the total amount of money swindled. In Chengmen Town, Fuzhou, Chen Zhenwen [7115 2182 2429] signed an agreement with the Qihe Fine Tea Plant to purchase tea valued at 190,000 yuan in the name of the "Fuzhou City Lulei No. 2 Flower Tea Plant". The agreement stipulated payment in full one month after the goods' arrival. After one month, the Qihe Tea Plant sent a person to urge payment and then found out that the other was a "bubble company"; the tea had been sold and no one knew where Chen was.

A third swindle is the "escape by cunning maneuver" trick. The swindler neither pays cash or signs a contract. Instead, he takes advantage of enterprises' desire for badly needed capital by trying to get them to sell products in stock at a low price, and then finding an opportunity to slip away. After learning that the Changde Longquan Wine Plant was in urgent need of cement for construction, a swindler masquerading as a Jiuxi Cement Plant sales agent claimed that the cement plant urgently needed capital and was willing to sell cement at a price 35 yuan per ton lower than the market price provided payment was made in cash. The Longquan Wine Plant accepted this offer because of the favorable price. The swindler then went to the Jiuxi Cement Plant to purchase the cement; pretending to be the person in charge of the Longquan Wine Plant, he asked that seven tons of cement be sent immediately, with payment to be made at a good price immediately upon delivery at the wine plant. After arriving at the wine plant and unloading the goods, the swindler made the excuse that he was going to the rest room, dismounted from the truck and slipped away. Two deliverymen from the cement plant discovered the scam when they made inquiries at the wine plant.

A fourth swindle uses bogus bank notes. This scam is usually pulled on township enterprises by using false bank notes such as counterfeit bank drafts, mail transfer receipt, etc. The swindlers usually make their move at the time right before offices close, because at that time phone lines are quite busy, and it is hard to get a call through to get verification from bank work units. The Changpu Cast Pipe Plant was swindled out of over 20,000 yuan in cast casting pipe by someone using a bogus bank mail transfer receipt in the way described above.

A fifth swindle is done under the ruse of investing. Some enterprises or relevant government departments fear that they are not hospitable enough, so they invite foreigners to this or that local hosted festival, offering food and transportation. Some foreigners take advantage of this by attending whatever festival or meeting is being held, and in each place they sign a letter of intent to

invest several millions or tens of millions, with the promise of further discussions after they return. These things in the end turn out to be fruitless. The result is that the foreigners get a free trip to scenic spots and historical sites, with their expenses borne by the enterprises. For the latter it is like a mute person tasting bitter herbs—unable to express their discomfort.

In addition, some enterprises hire large numbers of purchase and sale agents, voluntarily giving these agents contract sheets which bear the enterprises' legal person and legal person representative stamp. Some of the agents are careless with contract documents, some of them are taken advantage of by swindlers, and some of them even sell contract documents. There is also a laxness when it comes to cash management. Enterprises use a great deal of cash in making payments, which loses the banks' supervisory and monitoring function. As the market economy continues to develop, township enterprises are truly becoming the first point of growth in our developing rural economy. But the widening economic fraud keeps on reminding the generous: the market economy ocean holds whirlpools as well as treasure!

#### Interview With Rural Enterprise Official

94CE0639A Beijing NONGMIN RIBAO in Chinese  
21 Jul 94 pp 1, 4

[Article: "Ministry of Agriculture Township Enterprise Department Director Qi Jingfa Answers Our Staff Reporter's Questions"]

[Text] Recently, Ministry of Agriculture Township Enterprise Department Director Qi Jingfa [7871 2529 4099] answered some questions raised by our staff reporter.

**Question** Please describe for us the township enterprises' developmental situation for the first half of this year?

**Qi Jingfa:** In the first half of this year, the overall situation of township enterprise development nationally could be summed up by saying that there is concern behind the joy: the joy is the stable and healthy development; the concern is that the difficulties are greater than ever. These are manifested chiefly as:

Sales output value has increased at the same pace as industrial output value, an excellent match of production and sales. During the period January to June, township industries together accumulated 1.2099 trillion yuan in output value, an increase of 44.8 percent over what they accomplished in the same period last year. Sales output value was 1.0045 trillion yuan, which was a 55 percent increase. The foreign orientation of these sales also increased. At the end of June, the delivery value of township enterprises' export value was 118 billion yuan, an increase of 55.2 percent over the same period last year. This significantly increase the foreign exchange earned by the nation. At the end of May, township enterprises had altogether handed over about

59.6 billion yuan in taxes to the State, which was an increase of 35 percent over the same term last year.

However, in the first half year, every locality faced a common difficulty, a serious shortage of capital and a substantially larger tax burden. In addition, some enterprises were themselves of low quality, which caused an expansion in these enterprises' losses, and as the amount of these losses increased and profits dropped at an increasing rate, some enterprises were bankrupted. The statistics are incomplete, but it looks like the first half year will show a 16 percent loss rate for township collective enterprises nationally, a 7 percent increase over the same term last year. This would be a 4.2 billion yuan loss, and would be a 40 percent increase over the same period last year.

**Question** In the first half of this year, what were the main things your department did in macroscopic administration and service? Please discuss these in detail.

**Qi Jingfa:** Just speaking of the main things, there were four tasks: one, carrying out further reform; two, starting up East-West cooperative pilot projects; three, improving the quality of products; and four, increasing economic efficiency. The focus of carrying out further reform is advance the reform of the township enterprises' property rights system. The test sites for the joint-stock system developed healthily, and played a huge role in clarifying property rights, perfecting the mix, completing the system, strengthening management and increasing efficiency, etc. Various enterprise groups and enterprise associations showed even greater development. Every locality showed great interest in East-West cooperation. All preparatory measures were basically completed, and some localities have started. In June, jointly with the State Bureau of Technology Supervision, we held a National Township Enterprise Products' Quality Work Conference in Nanjing; the attendees analyzed the situation, looked into problems, established measures, and determined that within two or three years there must be a significant improvement in township enterprise products. The conference formulated the "Decision On Improving Township Enterprise Products' Quality." Increasing economic efficiency is a prominent focus of our department's work. Since the beginning of this year, we have been leading enterprises by various means on the path of taking improved economic efficiency and labor quality as the dominant factor. We have worked out a system for checking economic efficiency through eight index items.

**Question:** What have you arranged for your work in the second half of the year?

**Qi Jingfa:** In the second half of the year, our department will continue to do well in the following areas:

First, we will organize and implement the "Township Enterprise East-West Cooperative Pilot Project." The decision to carry out this "project" was made at last year's National Township Enterprise Work Conference

and this year's National Agricultural Work Conference. It will be the focus of our work in the second half of the year. It can officially be under way in the near future, and will gradually spread out from there.

Second, we will continue to pay close attention to conducting further enterprise reform, working hard to improve internal strength, strengthening management, improving quality and increasing the efficiency of our work.

Third, we must make our work methods a prominent focal point, paying attention to carrying things through, thinking about what the enterprises think about, worrying about what the enterprises worry about, strengthening macroeconomic supervision, coordination, and service.

**Question:** It appears the township enterprises developed very rapidly over the first half year. Was it really that fast? Are the statistics accurate?

**Qi:** The developmental rate for township enterprises held at about a steady 40 to 50 percent in the first half of this year. While this is not low, it is still quite a bit lower than it was for the same period last year. We always stress seeking truth from the practical situation, and the principal reason that township enterprises can maintain such a rapid rate of development is that the Central Party Committee and the State Council have given such strong support to the development of township enterprises. They have been especially supportive of developing township enterprises in the central and western regions. Each level of local government has taken development of township enterprises as an important channel for increasing local finances, increasing farmers' incomes, and helping in all facets of rural affairs, so they have provided help and support in various ways. After more than a decade of rebuilding and improvement, a vast number of township enterprises have grown to a certain scale, production capacity and management level.

**Question** One social problem of wide concern is that of township enterprises' environmental pollution problem. Please discuss this in some detail.

**Qi Jingfa:** Environmental protection is a fundamental national policy of our government, and the Ministry of Agriculture always gives it a lot of attention. In 1985, the Ministry organized an investigation of the national situation of township enterprises' environmental pollution. In 1990, the Ministry organized a second investigation on the situation in conjunction with the State Environmental Protection Bureau. The investigation results showed that in 1992: township enterprises disposed of 1.83 billion tons of waste water, which occupied 6.7 percent of the nation's industrial waste water disposal; it disposed of 122 billion cubic meters of waste gas, which was 12.9 percent of the national gross industrial waste gas disposed of; it produced 115 billion tons of waste residue, which was 16 percent of the national total produced.

In recent years, there has been a strengthening of township enterprises' environmental management and pollution treatment. In 1985, environmental protection in township enterprises was still in its primary phase, and there is still much work to be done. By 1990, there were 110,000 environmental protection workers of various kinds in township enterprises throughout the nation; the implementation rate of environmental impact evaluation and the "three concurrents" system (designing, constructing, and operating environmental protection facilities concurrently with major facilities) reached 22.7 percent and 14.45 percent, respectively; there were 75,000 pollution treatment facilities of various kinds, 13,000 boilers and furnaces were redone, and the original value of fixed assets in environmental facilities had reached 140,000 yuan.

It is undeniable that, while township enterprises do not have a large amount of pollution, they are so widely spread throughout our vast country that it makes environmental protection a huge task and mission. We will conduct another joint investigation of township enterprises' environmental situation, studying countermeasures, adopting measures, getting better all the time in township enterprises' environmental protection work.

**Question** We still do not have a "Township Enterprise Law," although there is great demand for one; do you think township enterprise legislation is necessary?

**Qi Jingfa:** There is still some controversy regarding the necessity of township enterprise legislation. I think it is absolutely necessary to have such legislation, for the following reasons:

First of all, township enterprises have not only become a major force in China's rural economy and an important component of the domestic economy, they are also playing an important role in such matters as transferring surplus rural labor, increasing farmers' income, realizing agricultural modernization and national industrialization, reducing the gap between city and countryside and increasing China's comprehensive forces, etc. Current developmental trends indicate that it would not take too long for township enterprises to become "half of the nation." Granting the legal status which will protect the rights and interests of a sector which is, objectively, such a major part of our economic base would be of great significance in guiding that sector's healthy development.

Second, township enterprises are an economic entity run by Chinese peasants, so it differs greatly when it comes to such things as the property rights mix, the industrial mix, fundamental missions, operational and management systems, etc. Especially when it comes to the internal relationships among agriculture, countryside and farmers, there are many special characteristics which set them apart from the state-owned enterprises and urban collective enterprises. Township enterprise legislation cannot be replaced by any other legislation.

Third, looking at the developmental process of the world economy, most of the more developed market economy nations have established "Medium and Small Enterprise Laws" or similar laws to protect and support their development. Township enterprises are the major body of medium and small enterprises in China, and are a great creation of Chinese peasants. They are a socialist economic formation with uniquely Chinese characteristics. Establishing "Township Enterprise Laws" to encourage, support and guide township enterprises in healthy development matches the global pattern of economic development.

Therefore, in order to provide fundamental protection and promotion of township enterprises' lasting and healthy development, it is absolutely necessary that we establish a "Township Enterprise Law" as soon as possible.

**Q: a problem of inappropriate competition?**

**Qi Jingfa:** We can say that throughout the history of vigorously developing township enterprises, keen market competition has gone on every month, every day and every hour. No one can deny that some enterprises have behaved inappropriately in this competition. There are three major points to this. One reason is the system. Before the 14th National Party Congress China had a planned economic system, in which the state supplied everything to State-owned large and medium-sized enterprises according to a plan, while the state also operated commercial departments which sold the enterprises' products uniformly. The prices for planned raw materials, energy and transportation were all lower than the prices outside of plan. For their own existence and development, some township enterprises have attempted to obtain such essential production materials as raw materials and energy, by any means. The second reason is the legal system. Some enterprises lack legal knowledge, added to the fact that before 1993 China had no law against illegal competition. Third are township enterprises' own problems. For personal or small groups' interests, some enterprises have reaped staggering profits through illegal competitive behavior.

Competition is the most basic operational system of the market economy. Various illegal competitive behaviors will all bring serious damage to fair competition order, and affect the healthy development of the market economy. So, responsible township management departments at every level as well as the enterprises themselves must resolutely oppose it.

We believe, with the establishment of the socialist market economic system in China and its continuous improvement, the promulgation and implementation of an "Anti-illegal Competition Law," that there will be continuous improvement in the quality of township enterprises, and illegal competitive behavior will come under efficient control.

**Question:** What do you think will be the significance for township enterprises of establishing the socialist market economy?



**Qi Jingfa:** The gradual establishment of the socialist market economic system is a deep fundamental change. For enterprises, it means participation and competition, with the good ones becoming superior and the bad ones being eliminated.

Establishment and improvement of the socialist market economic system will not only create the route for developing township enterprises, it will at the same time require township enterprises to better suit the demands of establishing the socialist market economic system.

One: we must establish the big market concept. Do not think that because certain products have a market in their own localities or during a certain period there is nothing to worry about. You must be aware that if the same kind of product came in from other counties, provinces or countries, you may lose your market. The good seller today may be unsalable tomorrow. It is only by adopting the strategy of a big market and big circulation, can township enterprises seize the market and occupy it. We must further strengthen the concept of competition. Market competition acts in various ways, as competition in quality, in pricing and service, while behind the competition, it is a contest of technology, management, talented people, information, purchasing and sales channels. Township enterprises should not regard themselves as "old hands" who know everything. In the face of the market economy, we are all "elementary school students." If we do not realize this, we will be in danger of being eliminated.

Two: township enterprises are increasingly the backbone of our enterprises and enterprise groups. In the past, township enterprises relied upon their advantages of small size and rapid adjustment to dominate their markets, but in the future, they should use the advantages of large scale and grouping to compete, to enter competition in the big ocean that is the market economy.

Three: conduct further reform to perfect the enterprise operating system. The key problem is to link enterprises' operating results with the profit of each individual employee. Meanwhile, we must keep the right of self-operation relatively independent. Therefore, we must take the time to clarify such aspects as property rights and the establishment of a positional responsibility system.

Four: rely on science and technology, and pay attention to talented people. Reliance on technological advancement is a fundamental strategic measure for township enterprises to accomplish the leap from increasing quantity to quality. Looking at the overall situation, there are currently still a large number of township enterprises which have low level technology, bad product quality and backward management. So, there must be long term investment in science and technology, paying attention to technological replacement and development of new products, vigorously developing well-known and excellent products and products with high added value, high technological content and which will earn high foreign

exchange. Talented people are the carriers of science and technology, and without people of talent, there is no science and technology. Compared to the State owned enterprises and foreign enterprises, one of the weakest points of township enterprises is a shortage of talent. In 1993, every one hundred million US dollars of domestic production output value in China's township enterprises had 160 college graduates, while the figure for State-owned enterprises was 1,304 persons, and early in 1981, the United States figure was 1,457 college graduates. Therefore, we must accelerate the breeding of talent and their introduction to township enterprises.

Five: vigorously develop an export-oriented economy. We must pay attention to improving the soft environment, with policies which are more favorable to inviting investment and business, with higher efficiency, better reputations, and greater attraction to foreign investors; on the other hand, we must pay attention to improving the hard environment. We must try to build better roads in those places which have the conditions, supplying more sufficient power and a faster automatic switching telephone network, providing more complete services of all kinds. This will make foreign investors more willing to cooperate with us.

**Question:** The quality of township enterprise products is always a hot topic in society; could you please discuss this?

**Qi Jingfa:** In recent years, each locality has been paying attention to township enterprises' quality as a key link in the entire management of enterprises' operations. It has strengthened such basic quality control work as enterprise standards, measures, product quality checks, etc.; conducted common comprehensive quality control in backbone township enterprises; carried out a vigorous quality control campaign among the masses; conducted quality education and training among township enterprise cadres and employees by plan and organization; gradually established a quality monitoring system, strengthened township enterprises' product monitoring and examination work, and pushed the general level of township enterprises' products to a new level. Based on statistics from some areas, the industrial enterprises' product quality stability improvement rate in the two classes of town and village has reached more than 90 percent. The production output value that was created by township industrial enterprises with advanced technical equipment and better product quality occupied 50 percent in the two classes of town and village industrial enterprise production output value nationally. So far, township enterprises have received a total of about 7,000 excellent product awards at various levels, including 69 national quality gold and silver medals, 3,342 excellent products awards at the ministry level, while 50 products have received international awards, and the excellent quality products stability improvement rate is now more than 95 percent. 82 enterprises have received quality control awards at the ministry level.

In summary, township enterprises' product quality and service quality has improved with the constant development and expansion of township enterprises. However, it should not be ignored that quality problems do exist in township enterprises. Some enterprises have only a vague idea of quality in their operational guidance; they stress speed while ignoring efficiency, give much attention to quantity while ignoring quality, pay attention to development while ignoring improvement, and they ignore quality control work; some hurried into projects while lacking the conditions to produce quality products; some have produced below standard products, and there is also a quite serious situation of production without trademarks; product quality stability is bad, with low quality ratings when examined; there are enterprises which are backward in technological equipment, so they have a lower level of products; some have outstanding problems involving product quality concerned with people's lives, property safety and personal health; some enterprises, especially some individual and privately run enterprises, have produced and sold fake products and they have not terminated this practice despite its being constantly forbidden, and this has seriously damaged consumers' interest and township enterprises' reputations.

To resolve these problems, we have stressed the concept of improving quality, strengthened leadership, strengthened enterprises' internal management, trying to take township enterprise product quality and service quality to a new level.

**Question:** How do you view the problem of building the party organization in township enterprises?

**Qi Jingfa:** We should affirm that since the implementation of opening and reform, township enterprises' great achievements have been under the direct leadership of party organizations at each level, and especially the rural Party organization, led by the party's basic line and a series of its principles and policies.

However, the number of party members is small right now, the party's force is weak, and organizational building cannot keep up. This is an outstanding contradiction in township enterprises' party work, and it is very inappropriate to the rapid developmental situation of township enterprises. We must change this situation as soon as possible.

One: we must do a good job of bringing in new party members, to expand the party's force. Currently, the number of party members in township enterprises is about 1 percent that of the total number of township enterprise employees, with an even lower rate in individual and privately run enterprises. Therefore, we should enthusiastically, but cautiously, bring into the party people of excellence from township enterprises in accordance with the conditions stipulated by the party articles on expansion of the party member team. The focal points for absorbing new membership should be enterprise operators, the backbone force of production

and technology, and excellent young workers, and in the meantime we should pay attention to absorbing new party members in individual and privately run enterprises and joint stock enterprises.

Two: establish party organizations in those township enterprises which have the conditions. After they have a certain number of party members, township enterprises should promptly establish a party organization. At present, the major problems existing in some township enterprises' party organizations are: incomplete party organizations, with only 24 percent of the township collective enterprises having established party organizations, and only 0.016 percent of the individual and privately run enterprises; a lack of clarity concerning the status and duties of party organizations; the special characteristics of party members and employees are unsuitable to the style of work and style of activities of township enterprises, with their complex structure, flexible system and large circulation. In this situation, the principle of establishing township enterprise party organizations should be favorable to guaranteeing and promoting township enterprise development and reform, be favorable to the management and education of party members, be favorable to bringing into play the party organizations' role as a powerful fighting force and party members' role as pioneers and models.

Three: grant township enterprise party organizations' the functions they should have. The major assignment of a township enterprise party organization is to: carry out the party's line, principles, policies and supervising spirit from higher level party organizations, and implement the nation's relevant laws and regulations; make decisions concerning such important issues as the enterprise's long-term development plan, annual plan, large and important construction costs, nominating and eliminating cadres, etc.; doing a good job in operations and management by supporting the factory director and managers in their conduct of production; and doing a good job of political thought work, the party organization's self-construction work, and building the thinking and style of the leadership team and other mass organization leadership work.

## Foreign Trade, Investment

### Foreign-invested Firms Analyzed in Ningxia

94CE0627A Yinchuan NINGXIA RIBAO in Chinese  
1 Jul 94 p 2

[Article of Policy Research Office of the Ningxia Autonomous Regional Party Committee: "Emphasize Strategic Orientation To Speed Up the Development of Enterprises With Three Sources of Capital"—Investigation on the Development of "Three capital" Enterprises Throughout the Region]

[Text] In the past two years, enterprises with "three sources of capital" in Ningxia Region have witnessed a promising trend of rapid growth. By the end of 1993, the

total number of enterprises with three sources of capital reached 286, the total amount of investment, \$369 million, registered capital, \$312 million, and contracted foreign investment, \$160 million.

Development trend indicates that investment in the tertiary industry has increased substantially. By the end of 1993, the total number of such enterprises in the tertiary industry accounted for 80. The territory of foreign investment has expanded. There are now 77 counties/cities, 20-plus departments/bureaus, and developing zones in the region sponsor enterprises with "three sources of capital." The development of wholly owned foreign enterprises has been accelerated. The number of new wholly owned foreign enterprises approved in 1993 is equivalent to 2.26-fold of the number of such enterprises approved in the previous nine years. The amount of foreign investment per project has increased. The average amount of foreign investment contracted per project is \$611,000.00. The channel of foreign investment has expanded. Foreign investors investing in the region hail from 22 different countries and areas. The amount of foreign exchange earnings contributed by enterprises with "three sources of capital" has been increasing continuously. In 1993 the amount of foreign exchange earned by such enterprises through exports reached \$55.1 billion, an increase of 115 percent over the previous year. The number of enterprises earning foreign exchange through exports has reached 14.

Enterprises with "three sources of capital" in the region have "fired up" rapidly, but a cool-headed analysis of the situation shows that there are indeed some problems still worth noticing.

The scale of individual unit is still small, quality low, development uneven, and industrial structure not totally rational. The average investment of 286 approved enterprises with "three sources of capital" is \$1.29 million, much lower than the national level of \$2.249 million. Quite a few foreign-invested enterprises ignored import of advanced technology, equipment, and techniques. Most of them are general processing, food, or service industries. They are distributed as follows: 95.9 percent in river areas, 4.1 percent in mountainous areas; 81.9 percent in four cities, 18.9 percent in nine counties; 0 percent in Lingwu, Jingyuan, Xiji, and Haiyuan. Their distribution in the primary, secondary, and tertiary industries is as follows: 1. 05:64. 34:34. 61.

Contract fulfillment is less than desirable and economic returns are poor. According to the statistics of investment review of 90 enterprises with "sources of three capital, capital actualization rate (percentage of registered capital) is 49.45 percent, which is composed of 60.14 percent Chinese investment and 36.12 foreign investment. Ningjia company was founded in 1984, and 40.8 percent of its Chinese investment and 14.8 percent of its foreign investment have been actualized. Ninggang company was founded in 1986, and only 2.3 percent of its foreign investment has been actualized. Over 60

percent of foreign investment of existing enterprises with "three sources of capital" are in the form of equipment and materials. In the first nine months of 1993, capital and sales taxes of enterprises with "three sources of capital, which have officially started operation, were 1.17 and 5.58 percent respectively. Enterprise profits were negative.

The improvement of investment environment has many problems and slow progress. Because some counties and cities have not established program-controlled telephone system, a number of major construction projects cannot be started. In the preliminary stage of foreign capital import, problems such as too much redtape, overlapping, crisscrossing, and dislocation still exist. The development fund for foreign-invested enterprises was supposed to be established by 1992 but has not yet been established; transportation subsidies for enterprises earning foreign exchange through export have not been fully implemented; and relevant stipulations regarding coal, electricity, transportation, and telecommunications needed by enterprises with "three sources of capital" have often not been enforced in a timely manner.

Management, service, and monitoring are behind. Development strategy, industrial policy, preliminary screening and approval, post management, monitoring, and service of enterprises with "three sources of capital" lack unified organizations, coordination, and guidance. Failure of law enforcement departments to investigate and handle contract violations of enterprises has given rise to enterprises with "three fake sources of capital," which have made co-dependent investment or have transferred Chinese capital to foreign capital. Information, consulting, auditing, and legal services for enterprises are inadequate.

Party, union, and youth organizations are weak. According to a survey of 47 enterprises, 40.4 percent do not have party organizations and 59.6 percent do not have unions. A large number of enterprises which have party, labor, and youth organizations do not pay attention to exercising their functions and never carry out any activities. When studying and deciding major issues, enterprises do not allow participation by members of party, labor, and youth organizations. Some enterprise organizations have not received documents from higher levels for years and therefore cannot attend any relevant meetings.

To implement the principle of "opening further to the outside world and making better and faster use of foreign capital, resources, technology, and managerial know-how," gradually expand the use and raise the status of enterprises with "three sources of capital" in the economy of our region, I make the following proposals:

1. Clarify thinking and pay attention to strategic orientation. We should try our best to absorb foreign capital and carry out as many as possible projects with high technology content, high added value, high foreign exchange earnings, and high efficiency. We should make



rational plans, provide classified guidance, continue to increase the investment fulfillment rate, opening rate, export and foreign exchange earning rate, and capital tax and profit rates.

2. Improve environment and pay attention to industrial orientation. We should strengthen construction of "hard environment" for investment and further improve the "soft environment" for investment. We should strengthen and improve macroeconomic management, implement the policy that combines industrial and regional slanting policies, quickly formulate a catalogue for industrial orientation of foreign investors, do a good job in implementing existing preferential policies for foreign investment, and study and draft policies under which mountainous areas are distinguished from river areas, mountainous areas have more preferential treatment than river areas, hi-tech developing areas and poverty-relief economic development areas have more preferential treatment than their neighboring areas. We should encourage foreign investors to invest in technology-intensive industries and gradually expand foreign investment in commerce, travel, banking, insurance, transportation, and scientific research.

3. Strengthen leadership and do a good job in monitoring, management, and service. We should strengthen the management and monitoring of foreign investment contracts, resolutely stop and ban enterprises with "three fake sources of capital," do a good job in the formulation and improvement of local laws, stipulations, and enforcement rules and regulations for enterprises with "three sources of capital," forbid unauthorized levy of charges and fines and apportioning of expenses on enterprises with "three sources of capital," make a success of equipment and raw material import and product export, and prevent price transfer and profit loss.

4. Make great efforts to ensure success of existing enterprises. With regard to enterprises with "three sources of capital," government and management departments at all levels should live up to the balance of "control" and "decontrol." Enterprises with "three sources of capital," which have officially begun operation, should strengthen internal management and strive to start operation and achieve economic returns as soon as possible. They should absorb advanced operating mechanism and management experience of enterprises abroad, combine the strong points of Chinese and foreign management, integrate all advantages into one, and enable enterprises with "three sources of capital" to develop along a healthy path.

5. Pay attention to the building of party, labor, and youth organizations. All localities and departments should include in their agenda the party, labor, and youth organizational work of enterprises with "three sources of capital" and give full play to the political role of party organizations as the core of leadership and the function of involvement by workers' congress.

### **Fujian Foreign Trade Officials, Businessmen Interviewed**

94CE0680A Fuzhou FUJIAN RIBAO in Chinese  
13 Jul 94 p 6

[Article by reporter Ye Rong (0673 2827): "Export Growth Rate Second Highest in Nation; Tight Fund Supply Necessitates Improvement of Supplementary Reforms—Interviews on Deepening Our Province's Foreign Trade Reform"]

[Text] Major steps have been taken this year in deepening the reform of the foreign trade system. Chief among the new measures are the unification of the exchange rates, buying and selling foreign currencies by banks, and abolishment of the 50 percent quota system for submitting foreign exchange earnings to the state with and without compensation. What are the results of these new measures, which have been implemented for nearly half a year? Is there any new situation or problem? With the above questions, this reporter has recently interviewed some responsible persons of the Provincial Commission of Foreign Economic Relations and Trade as well as foreign trade companies in the province.

Wang Beihui [3769 0554 6540] (vice chairman of the Provincial Commission of Foreign Economic Relations and Trade): Following last year's 40 percent growth, our province's exports continued to show fast development in the first half of this year. The total export volume reached \$3.606 billion, up 50.87 percent compared with a year ago. This growth rate was the second highest in the country. In the main, this is attributable to the further reform of the foreign trade system this year. The reform has improved the operational environment for state-owned foreign trade enterprises and put foreign trade enterprises, the three kinds of foreign-funded enterprises, and production enterprises with import and export rights on the same starting line for developing their business, thus arousing their initiative to expand exports. However, there have also appeared some urgent problems to be resolved. The most striking ones are insufficient money retrieved by enterprises from tax refund on exports and their shortage of circulating funds. Foreign trade enterprises depend mainly on state loans for their operations. This year the increase in state loans for foreign trade development is not in line with the growth of exports. And because the money retrieved by the enterprises from tax refund is inadequate, they need an even greater amount of bank loans. All these are restricting the expansion of exports. In view of this, we are not optimistic about our export development in the second half of the year.

Yang Zuji [2799 4371 1015] (president of the Fujian Foreign Trade Center Group): The reform of the foreign exchange rate system has helped foreign trade enterprises to transform their operational mechanism. Now, these enterprises can decide on their business policy based on the actual situation without being restricted by

such mandatory plans as turning foreign exchange earnings over to the state. Money converted from foreign exchange earnings can be included directly in their accounts for use as circulating funds. According to estimates, in the past foreign trade enterprises had to wait for more than half a year to recover the funds they spent. Now, it takes only three or four months. This is very conducive to expanding their exports and boosting their returns. Of course, after the unification of the renminbi exchange rates and the introduction of the new systems of converting, buying, and selling foreign exchange, the question is whether the banks can promptly adapt their management and operations to the new situation and provide quick foreign exchange conversion and sale services to meet the needs of foreign trade. This question will have a direct bearing on the turnover of funds and operational results of the enterprises. This year we, the Provincial Foreign Trade Center Group, have seized the opportune time to develop our services. We have seriously studied and used such economic levers as the foreign exchange rate, interest rate, and tax rate to promote exports so as to earn more foreign exchange. Meanwhile, we have tried to arouse the initiative of all sectors to build export commodity production bases. As of the end of June, the export volume had exceeded the same period of last year by some \$20 million, the rate of increase being more than 50 percent.

Xue Xingwang [5641 5281 2489] (general manager of the Provincial Light Industry Products Import and Export Corporation): This year's foreign trade reform has relieved the enterprises of the burden of foreign exchange retention and mandatory submission of foreign exchange earnings to the state. This should enable the enterprises to develop international trade in a more flexible way on the basis of changes in the market condition and foreign exchange rate. Now, the central bank are exercising effective macro-control over the foreign exchange market. It has stepped up the supervision and management of the foreign exchange market and put the market operations within the confines of laws and regulations. This has greatly eased the pressure on foreign trade enterprises caused by the previous chaotic foreign exchange management and risks arising from different exchange rates. Now, the enterprises also find it easier to accurately calculate costs and, therefore, can go ahead boldly with international business transactions. During the first half of this year, we took advantage of the reform-induced opportunities to expand our exports. As of mid-June, our exports had reached \$59.14 million, up 32.92 percent over last year's corresponding period. As for problems appearing after the reform, a relatively striking one is the depreciation of the renminbi with the unification of the exchange rates. Though the depreciation of the renminbi is conducive to promoting exports, this positive effect is only of short duration—about half a year, in general. Now, the prices for most domestic products, including raw and auxiliary materials, have gone up, adding to the costs of exports.

Knowing that our foreign trade enterprises can benefit from the new systems, buyers overseas are doing their utmost to cut the prices. Under these circumstances, our foreign trade enterprises are suffering at both ends. Our present measure is to combine industry and scientific and technological research with foreign trade. We have started developing some pillar industries with a view to raising our enterprises' competitiveness in the international market. Meanwhile, foreign trade companies will be reorganized in accordance with the modern enterprise system. Efforts are being put in high gear to institute the shareholding system and raise the level of scientific management within the enterprises in the hope that they will re-create a brilliant record of foreign trade development.

Lin Xiangchao [2651 4382 3390] (general manager of the Provincial Jewelry Import and Export Corporation): The unification of the exchange rates has driven up the renminbi costs of imported raw materials by about 50 percent. In addition, the state no longer allocates foreign exchange to enterprises for use as circulating funds for their export operations that rely on imported materials, nor can foreign exchange earned from such export operations be retained and used by the enterprises as foreign-exchange circulating funds. This has a certain adverse effect on the export of machines, electronics, light industrial products, and textiles, which are by and largely made from imported materials. Take our corporation as an example. When we buy gold from the state, we are required to pay in foreign exchange according to the regulations. That is, we must buy foreign exchange before we can buy the gold. After the gold has been made into jewels and the jewels have been exported, we have to sell the foreign exchange earnings to the state. Buying and selling foreign exchange is a complicated and time-consuming procedure, and because of this, we have often missed fine opportunities for doing business. Besides, repeated foreign-exchange buying and selling has caused a considerable loss to us due to the difference between the buying and selling exchange rates. For this reason, our company's exports declined in the first half of this year. To solve this problem, we have now, on the one hand, established a closely cooperative relationship with our bank and opened a long-term value-guaranteed renminbi deposit account for use in buying foreign exchange. On the other hand, we have changed our previous specialized and single-track way of operation. While upholding the exchange-earning export trade as our main business, we are trying to diversify our operations to include overseas ventures, real estate, and hotel business. The purpose is to beef up our corporation's overall strength. Of course, we earnestly hope that the authorities will work out, as soon as possible, various supplementary reform programs to facilitate the development of foreign trade enterprises.

#### **Success of Fujian Investment Drive in Hong Kong Reported**

94CE0579A Fuzhou FUJIAN RIBAO in Chinese  
2 Jun 94 p 1

[Article by Jiang Dade (5592 6671 1795): "Success Reported of Fujian Investment Drive in Hong Kong"]

[Text] In an interview in Hong Kong today with reporters from Asian Television, WENHUI PAO, TAKUNG PAO, Hong Kong SHANG PAO, and Hong Kong Standard, Vice Governor Zhang Jiakun [1728 1367 0981] of Fujian who was leading a provincial delegation to Hong Kong noted Fujian's great success in attracting international investors. As of this writing 702 contracts have been signed with a combined investment of \$2,031,000,000, utilizing \$1,679,000,000 in foreign capital.

The latest drive to attract foreign investment has these major characteristics. First, transportation, energy, and other sectors of the infrastructure make up the largest group of projects, accounting for about one-third of total investment. Second, raw materials industries, such as cement and glass industries, account for a majority of projects in the industrial sector, giving the investment mix a satisfactory proportion. Third, investment by multinationals based in the United States, Japan, and Western Europe has risen sharply, constituting 30 percent of all investment. Fujian's goal of attracting most investment from Hong Kong, Macao, and Taiwan while gradually internationalizing the sources of investment is being realized.

Zhang Jiakun said that in accordance with Fujian's development strategy, the province's economy will continue to grow at the rate of 11 percent from now until the end of the century, tripling provincial output. Accordingly, it must further attract foreign capital, which, Zhang Jiakun said, has always been a top priority in Fujian. In the future it will unveil a string of appropriate policies and measures based on its economic development plan and taking into account what projects need to be tackled urgently as well as the investors' wishes.

Zhang Jiakun said, "Even as Fujian works to improve the tangible climate, it must continue to apply itself to making the intangible climate better. It will further streamline the project examination and approval process and raise work efficiency."

#### **Fujian To Woo Foreign Investors in Hong Kong**

94CE0579B Hong Kong KUANG-CHIAO CHING  
[WIDE ANGLE] in Chinese No 260, 16 May 94  
pp 73-75

[Article by Yun Gu (0061 6253): "Fujian To Attract Foreign Investment Through Hong Kong"]

[Excerpts] [passage omitted]

#### **Chen Mingyi [7115 2494 5030] Emphasizes Fujian Must Do Better**

Fujian had approved 3,000 Taiwan-funded projects with a total negotiated investment exceeding \$4 billion as of late last year. Judging from the statistics compiled by the departments concerned on both sides of the straits, however, Fujian is attracting less foreign capital than Guangdong and Jiangsu. On 19 April the province of

Fujian convened a conference on the utilization of foreign capital and economic work relating to Taiwan. Vice Governor Zhang Jiakun [1728 1367 0981], who is in charge of economic work, candidly acknowledged that Fujian faces keen domestic and international competition when it comes to attracting foreign and Taiwan capital and is under intense pressure.

Both Jia Qinglin [6328 1987 2651], secretary of the Fujian CPC Committee, and Chen Mingyi, who recently assumed office as provincial governor, made clear what they demanded from the utilization of foreign and capital. Chen Mingyi emphasized that improvements must be made in the utilization of foreign and Taiwan capital and favorable conditions created, including practical measures to safeguard the legitimate rights and interests and personal security of foreign investors and other measures to improve management and services.

Chen Mingyi, 54, was elected governor of Fujian at the second meeting of the eighth Fujian people's congress. He is the province's fifth governor since reform began, succeeding Ma Xingyuan [7456 5281 0337], Hu Ping [5170 1627], Wang Zhuoguo [3769 0340 0948], and Jia Qinglin. After stepping down as governor, Ma Xingyuan joined the CPC Central Advisory Commission. Upon leaving Fujian, Hu Ping became minister of commerce in the State Council and later director of the Special Economic Zones [SEZ] Office. Chen Mingyi was made vice governor at the age of 45, at the same time that Chen Binfan [7115 1755 5672] was appointed to the same position. He held the post for 10 years and is familiar with the province's financial and economic affairs. He is known for his pragmatic style.

#### **Fujian Launches May Drive To Attract Foreign Capital Through Hong Kong**

On 28 May, the Fujian international investment attraction drive along with an exhibition show-casing the achievements of urban renewal will open in Hong Kong. The leader of the Fujian delegation will be Vice Governor Zhang Jiakun and there will be five deputy leaders: Chen Zuwu [7115 4371 2976], director of the provincial economic relations and trade commission; Zheng Zhongjie [6774 1350 2638], deputy secretary general of the provincial government; and officials in charge of the planning commission, economic commission, and Fujian Overseas Chinese Commission. Zhang Jian [1728 0256], director of the office of investment recruitment delegations and head of the provincial SEZ office, presided over the press conference held in Hong Kong last year as part of the province's investment drive. Thus the delegation is led by individuals who actually handle the province's foreign economic relations and trade work today.

The thrust of Fujian's latest drive in Hong Kong to attract foreign investment is reportedly infrastructural projects, the exporting of technology-intensive products with a high added value, and urban transformation projects. In addition, efforts will be made to attract



investment to 10 experimental towns along the coast. It was the SEZ office of the province that put together the joint investment drive held in Xiamen late last year for coastal satellite towns and development zones. An analysis of Fujian's southeastern coastal region development strategy shows that apart from cities like Fuzhou, Xiamen, Quanzhou, Zhangzhou, and Putian, Fujian also has high hopes for budding cities like Jinjiang, Shishi, Nanan, Fuqing, and Longhai. The goal is to give these newcomers with real economic muscle their "special mess."

Hong Kong is an international financial, trade, shipping and transportation, and information center. It is home to 800,000 people of Fujian descent. Eight million overseas Chinese (the bulk of them in Southeast Asia) have their ancestral homes in Fujian. And the ancestors of 80 percent of the people of Taiwan came from that province. Fujian has done remarkably well in using both Hong Kong and overseas Chinese to attract Taiwan and overseas Chinese capital to invest in the mainland. With Hong Kong as their base, more and more companies in Hong Kong and Taiwan as well as overseas Chinese businessmen have been investing in Fujian in recent years either on their own or in partnership with others. Among the boldest moves are Guo Henian [6753 7729 1628] building a palm-oil plant in Xiamen and Huang Hongnian's [7806 7703 1628] Zhongce Company acquiring 41 state enterprises in Quanzhou. Joint ventures bringing together Hong Kong, Taiwan, and overseas Chinese capital are prominent in the Yuanhong investment zone in Fuqing.

#### **Fujian Desires Foreign Investment in Power, Transportation, Energy Projects**

Foreign investment contracts with a combined value of \$11.37 billion were approved by Fujian last year, while the amount of foreign capital actually utilized exceeded \$3 billion, both representing substantial gains over the years before. However, reportedly Fujian utilized less foreign capital in the first quarter of this year compared with the same period last year. Will Fujian's drive to open up itself further to attract foreign capital achieve new success? That is something being watched closely by all parties.

Take infrastructural development, for instance. Projected investment in the infrastructure this year is 27.5 billion yuan, a sum the provincial government would be hard pressed to come up with. With the Fujian economy growing rapidly and foreign-funded enterprises proliferating in recent years, infrastructural facilities can no longer keep up. The electricity, transportation, and energy bottlenecks have become the "achilles heel" of the Fujian economy. Accordingly it is the desire of Fujian to invest heavily in the construction of infrastructural facilities. The province's political leaders have repeatedly stressed the need to steer foreign investment into the right fields and increase the proportion of foreign capital financing infrastructural development. [passage omitted]

#### **Article Urges Increased Understanding of IPR**

94CE0678A Beijing ZHONGGUO MAOYI BAO  
in Chinese 14 Jul 94 p 2

[Article by Li Wenzhang (2621 2429 4545): "Significance of Strengthening Intellectual Property Rights Protection"]

[Text] Intellectual property rights are intangible property rights. They represent the results of creative intellectual work and are rights enjoyed by intellectual workers according to law due to their intellectual achievements. These rights encompass personal rights and property rights. The personal rights mean that the rights holders and the persons with intellectual achievements are inseparable. This is a reflection of personal relationship on the law. For example, a writer has the rights of authorship, publication, and alteration with regard to his works. These rights are known as intellectual rights. Property rights mean that a person has the right to use his intellectual achievements to get remuneration or reward after the achievements have been recognized by the law. These rights are also called economic rights. In terms of their nature, intellectual property rights are generally classified into "industrial property rights" and "copyrights." The former include the property rights associated with inventions, trademarks for industrial and agricultural products, exterior designs, service marks, and factory and company names. Copyrights are mainly the rights in connection with works of literature, music, art, photography as well as audio and video products.

Intellectual property rights have three essential features: First, they are exclusive, or monopolistic. This means that the intellectual property rights holder has the right to possess, use, make profits from, and dispose of the objects of rights. Second, they are regional. That is, the rights are geographically limited. The intellectual property rights granted by a country or a region are protected only in that country or region, and they have no legal effect in any other country and region. If the intellectual property rights holder wants to enjoy the same monopolistic rights in another country or region, he has to apply for such rights in accordance with the law of that particular country or region. Third, they have a definite duration. That is, there is a time limit for the legal protection of intellectual property rights. The protection period is prescribed by the law, and once the protection period is over, the rights end automatically.

Experience of countries in the world show that intellectual property rights protection is an inherent requirement of the market economy. The more developed the market economy, the better the legal system for intellectual property rights, and the higher the level of protection. To develop a socialist market economy, we must follow the general rules of the market economy and make full use of intellectual property rights in promoting the economy. In this regard, the main functions of the intellectual property rights system are as follows:

In the first place, the intellectual property rights system is a major integral part of the legal system of the market economy. As pointed out in the "Decision on Some Issues Concerning the Establishment of a Socialist Market Economic Structure," the establishment and improvement of the socialist market economic structure should be codified and guaranteed by an all-inclusive legal system. The operational mechanism of the market economy requires the establishment of a standard for market activities, the fight against unethical competition, and the creation of a unified, open, and fair-competition market environment. This way the market can play to the full its fundamental role in the allocation of resources. The intellectual property rights system consists of laws that directly standardize the activities of those engaged in market competition. The "Patent Law" is the legal standard that rectifies the social relations concerning the ownership of inventions and creations, patent rights, and the transfer and use of patent rights. The "Trade Mark Law" is the legal standard that rectifies the social relations arising from the registration and use of trade marks and the management and protection of trade mark rights. The "Copyright Law" is the basic guiding principle for matters related to copyrights. And the "Anti-Unethical Competition Law" is the legal standard that rectifies the acts of members of the market. All these laws have a common feature as well as specific characteristics. The common feature is that they belong to laws governing members of the market and they all define and protect intellectual achievements. The "Trademark Law" and "Patent Law" lay particular emphasis on protecting material achievements. The "Copyright Law" stresses the protection of achievements in the spiritual aspect. And the "Anti-Unethical Competition Law" is a general law aimed at standardizing market transactions and protecting fair competition among members of the market. These laws make up a legal system for intellectual property rights. They protect the rights obtained by members of the market through their intellectual achievements and serve as a guiding principle for their activities in the market.

Secondly, the intellectual property rights system gives enterprises a legal protection in conducting fair competition. Under the condition of the socialist market economy, enterprises are independent economic entities with independent production and management rights and economic interests. All enterprises are equal and subject to the test of competition in the market according to the principle of the survival of the superior and the extinction of the inferior. To maintain a fair-competition economic order, we must have laws as a guarantee. For instance, when an enterprise's invention has passed the patent examination, a patent has been granted, and a new product has been made under this patent, the new product will be protected by the Patent Law. If a trademark is given to this new product and if it is registered according to the "Trademark Law," the enterprise concerned will enjoy a monopolistic right for selling this patent product on the market. When the

patent right or trademark right is infringed upon, the enterprise has the right to request the relevant administrative department to investigate and deal with the case or file suit in the court so that its legal rights and interests will be protected by the law. If the enterprise's right is infringed upon by acts of unethical competition other than the above, it may also ask the procuratorial and supervisory departments to investigate and deal with the case or file a suit in the court on the basis of the "Anti-Unethical Competition Law." As can be seen, under the market economic system, the legal system for intellectual property rights is a basic means by which the state maintains fair competition. It is also a powerful weapon as well as a legal guarantee for market competitors (enterprises) to participate in competition.

Furthermore, the legal system for intellectual property rights is a basic requirement for developing international economic and trade cooperation and exchange. The resources and technology of a single country are limited. Only by placing itself in the international economic arena and getting involved in international economic cooperation and exchange can a country make up for its shortcomings, bring its strong points into full play, and proceed faster to develop itself and satisfy the material and spiritual needs of its people. In international economic and trade activities, intellectual property rights are becoming increasingly important. Patents, trademarks, and other intellectual property rights have become major elements, qualitatively and quantitatively, in economic and trade cooperation. Full protection of intellectual property rights is a common rule being observed by all countries in making technology and capital transfers and in conducting international economic and trade activities.

Generally speaking, the work of intellectual property rights protection in our country is in line with our socialist market economic structure. However, there are also some areas in which our work has not met the requirements. Chief among these are: People still lack an adequate understanding of the legality of intellectual property rights. Law-enforcement effort toward intellectual property rights protection has yet to be enhanced. There is a serious shortage of professionals to deal with issues on intellectual property rights. Intellectual property rights administrative organs need to be further improved and perfected. Especially under the present circumstances where we are going to restore our status as a GATT contracting party and the GATT Uruguay Round has set a higher standard for intellectual property rights protection, we should adopt positive measures to further our work in this respect and make it better meet the requirements of the socialist market economy.

First, we should gear up the propaganda and popularization of the legal knowledge about intellectual property rights. Since the start of the reform and opening-up drive, intellectual property rights administrative departments at all levels have done a great deal of propaganda and popularization work in this respect. However, enterprises still lack an adequate understanding of intellectual

property rights. One reason is the influence of the traditional thinking. Another reason is that our country's commodity economy has not been well developed, so there is not enough external pressure to awaken and push the enterprises to learn how to use intellectual property rights as a powerful weapon in playing an active role in market competition. Through the propaganda and popularization work on intellectual property rights, we must make clear who should enjoy such rights and let the enterprises know that if they are to survive and develop amid acute market competition, they must learn how to use intellectual property rights to increase their competitiveness. On the other hand, we should make the enterprises aware that, as rights holders, they are independent entities. They have independent production and management rights and enjoy economic interests independently. Relations among rights holders are relations of equality. For this reason, they should uphold the idea of competition on equal terms in carrying out their business activities on the market. When their rights are infringed upon, they should promptly seek protection from the relevant administrative department or file suit in the judicial organ so that their legal rights can be protected according to the law.

Second, it is imperative to act strictly according to the law and beef up the law-enforcement efforts. While raising their awareness of the legality of intellectual property rights, the administrative departments handling such rights and judicial organs should have a deep understanding of the principle and spirit of the relevant laws and, based on these laws, protect the rights holders in participating in competition on equal terms. They should create conditions for such competition among rights holders and safeguard their legal rights. At present, when intellectual property rights, as an intangible property, are infringed upon, the reputation of the rights holder or the market of his product is often damaged and affected. In dealing with the case of infringement, the authorities concerned can readily take such actions as stopping the act of infringement and imposing a fine on the infringer, but fail to do as much as they should to order the infringer to compensate for the loss suffered by the rights holder. Under these circumstances, the parties whose rights are infringed upon should learn to protect their legal rights and ask for compensation for their losses. Meanwhile, the law-enforcement department should strictly carry out the law and see to it that when legal rights are infringed upon, compensation is given to the victims according to the law. In other words, it should firmly safeguard the victims' legal rights. Now, a serious problem in dealing with cases involving intellectual property rights is local protectionism. In some localities, cases of copying and counterfeiting are rather serious, but great obstacles exist to the investigation and punishment of these cases. Some people have the erroneous thinking that copying and counterfeiting can help invigorate the local economy. As a matter of fact, counterfeiting can in no way help invigorate the local economy. On the contrary, it has a serious adverse effect

on local economic development. Shielding counterfeiting is a mistake and, if the case is serious, can constitute a crime. In dealing with cases involving intellectual property rights, law-enforcement departments must overcome the obstruction from local protectionism and strictly enforce the law so as to maintain an economic order for fair competition.

Third, it is necessary to speed up the training of personnel and the establishment of organizations in the field of intellectual property rights to meet the requirements of the socialist market economy. With the development of the socialist market economy, we will need more and more personnel to do the work on intellectual property rights. In particular, we will be in dire need of professionals who are familiar with the trend of development of intellectual property rights in the world and who can provide decision-making information for mapping out our country's plans and measures with respect to such rights. Because of this, the state should proceed from education to solve the problem. It should work out an educational and training program for personnel dealing with intellectual property rights and put the program into practice. Where necessary, intellectual property rights administrative organizations should be established as soon as possible. With regard to agents for handling intellectual property rights, it is imperative to set a strict criterion for them so as to raise their professional quality and enable them to really serve as consultants in this field for various enterprises. As for the management of intellectual property rights, it is necessary to view these rights as a whole. Among the units within the same functional department related to intellectual property rights, there should be a clear division of work as well as coordination and cooperation, so as to give full play to the department's function in managing and protecting such rights.

**New Border Trade Strategy Urged for Heilongjiang**  
94CE0638B Shenyang BOHAI SHANGBAO in Chinese  
19 Jul 94 p 1

[Article by Wang Zongzhang (3769 1350 3864), vice governor of Heilongjiang: "Rethink Border Trade Strategy"]

[Text] Heilongjiang Province is located at China's north-eastern frontier and abuts the Russian Far East, their border stretching a long 3,045 km and dotted with 19 townships. It is an important land corridor in the Asian Pacific region leading to the Commonwealth of Independent States [CIS] and the European continent. So far 21 trading ports have been approved for opening. Imports and exports across the border totaled 2.73 million tons in 1993, up 34.7 percent from a year ago. Border crossings numbered 1.76 million men/times, a gain of 27.3 percent from 1992. We now have the rudiments of an open region based on Harbin, buttressed by such central cities as Qiqihar, Mudan Jiang, Jiamusi, and Daqing, and backed up by 19 border municipalities and counties.



Heilongjiang abounds with resources and has formidable economic muscle. It is one of the five grain, coal, timber, oil, and machinery production bases that is slated for priority development by the state. It occupies a key position in the nation as a center of agricultural and industrial production. It is the nation's top producer of 11 products, including crude oil, timber, power generation equipment, and trucks; the second largest producer of six products, including natural gas and gold; and the third largest producer of oil. Turning to agriculture, Heilongjiang leads the country in soybean, potato, flax, and beet production and is the No. 2 producer of milk cows and horses. It also has the highest grain commercialization rate in China. It has ample labor resources as well, its potential for exporting labor services and taking on projects overseas enormous. Particularly when it comes to tree-cutting and contracting for construction projects, Heilongjiang is capable of assembling armies of workers and technical personnel for work overseas.

With its accessibility, Heilongjiang is well placed to become the transportation hub in northeastern China as well as the Russian Far East. At present there are 5,267 km of railways in the entire province, more than any other province. Binzhou Railway and Binsui Railway are connected to the Trans-Siberian Railway and Baikal Railway, forming a pivotal land bridge to Eurasia. Heilongjiang also boasts 49,617 km of highways open to vehicular traffic. Already cargo can travel on land from the ports on Suifen He and Ningdong to Russia. Altogether 4,696 km of inland waterways are open to shipping. Ships can sail down Songhua Jiang and Heilong Jiang and enter the Sea of Japan through Khabarovsk and Magegang in Russia. The civil aviation industry is also booming. Now Heilongjiang has air links to more than 30 large and mid-sized cities, both domestic and foreign, including Khabarovsk and Hong Kong.

Since reform began and the open policy was introduced, Heilongjiang has fully exploited its geographical advantage, ample resources, and economic strength; earnestly put into effect the policy of "cooperating with the south, opening up the north, and opening across the board;" and worked hard to develop economic relations and trade along the border. Between 1988 and late 1993, imports and exports across the province's border with Russia amounted to 7.92 billion Swiss francs, contracts for 1,302 economic and technical cooperation projects worth a total of 3.62 billion Swiss francs were signed, and 76,600 workers entered Russia to work. Specifically imports and exports totaled 1 billion Swiss francs in 1991, 2 billion Swiss francs in 1992, and 3 billion Swiss francs in 1993. Heilongjiang's border trade with Russia accounts for one-third of the nation's total border trade. Heilongjiang has become China's window on Russia and other CIS countries. Since 1990, in particular, the annual Harbin border economic and trade talks have powerfully stimulated the maturing and development of international trade and economic market in the Heilongjiang region. Today over 40 nations and regions participate in the talks. Heilongjiang has become the meeting place of

numerous businessmen. With its trading ports and economic and trade talks, it channels customers from every province, municipality, and autonomous region in China as well as from nations around the world into the markets in Russia and other CIS countries, and vice versa. Heilongjiang is gradually emerging as a major conduit of international economic transactions and trade as well as a regional economic and trade center in northeast Asia.

Right now border and local economic relations and trade in Heilongjiang are in the midst of a new transition, from simple barter trade—each supplying what the other needs—under a planned economy to the kind of economic and trade cooperation under a market economy that conforms with international practices. To adapt to this change, we must upgrade the border opening strategy. In the long run, we must shift the focus of economic relations and trade from barter trade to spot exchange trade and economic and technical cooperation. In the short run, we must adjust the structure of barter trade with despatch and work hard to improve the quality of our export commodities. Toward those ends we must accomplish three things.

First, open up the cities along Hei He and Suifen He and go all out to build up the border open zone. Relying on opened cities along the banks of Hei He and Suifen He, Heilongjiang must devote itself to creating a multinational border economic cooperation zone, with each of the 19 townships and counties along the border establishing its own economic cooperation zone or an area where border people can trade with one another. Cities such as Qiqihar, Moqan Jiang, Jixi, Shuangyashan, Hegang, Qitahhe, Yumen, Suihua, and Songhua Jiang which are located alongside a railway should set up a development zone each with its own characteristics, so as to create a pattern of interest complementarity not only with Russia and other CIS countries and Eastern Europe, but also with neighboring countries and regions far away. Cargo shipping should be vigorously developed at ports along Songhua Jiang such as Harbin, Jiamusi, Fujin, and Tongjiang, gradually forming an international shipping network that connects with the Sea of Japan. In short, resources must be concentrated on putting together a multinational economic and technical cooperation zone along the border and along the rivers.

Second, we must work hard to orient large and mid-sized enterprises to the international market and upgrade the level of cooperation. State-owned large and mid-sized enterprises must be created to carry out economic and trade cooperation with Russia and the CIS. We may transform enterprises at home or relocate equipment, technology, and manpower across the border, setting up joint ventures, cooperative enterprises, and wholly Chinese-owned enterprises, thus actively laying the groundwork for multinational operations. We must assiduously bring about cooperation between a Chinese industry and its Russian or CIS counterpart, the principal candidates for such cooperation being light industry, grain, textile,

timber, agriculture, and construction, thus furthering the extent of economic integration. Large and mid-sized cities like Qiqihar, Mudan Jiang, Jiamusi, and Daqing must enter into cooperation with the appropriate regions or cities in Russia and other countries in the CIS. Such cooperation can take a variety of forms, thereby broadening the scope of cooperation.

Third, change the business strategy and actively explore new ways of conducting trade. Judging from the trend of economic and trade development in the border region, the days of simple barter trade and high price differentials are over. Taking their place is a mix of spot exchange trade, economic and technical cooperation, and barter trade, which conforms with the norms of international trade and is based on international market prices. After 1995, in particular, policies favoring border and local trade will be modified. For this reason, we must rethink our business strategy and apply ourselves to hammering out a stable long-term relationship of economic and trade cooperation. Emphasis must be put on bilateral economic and technical cooperation, cooperation being the engine of trade development. Spot exchange trade must be actively promoted and everything must be done to switch to that form of trade. The mix of commodities in barter trade must continue to be adjusted and efforts must be made endlessly to expand the scope of such trade. Multilateral cooperation too must be tackled aggressively, opening up the markets in the CIS in conjunction with Hong Kong, Macao, Taiwan, as well as neighboring countries like Japan and Korea. In a nutshell, we must adopt a new business strategy in response to the new transition to ensure steady and sustained economic and trade development in the border region.

#### **Xiamen Experience With Foreign Role in Banking**

94CE0643A Beijing GUOJI SHANGBAO in Chinese  
23 Jun 94 p 1

[Article by Zeng Rongying (2582 2837 5391), Sun Peng (1327 7720), and Jin Jianhang (6855 1696 2635): "Ten 'Foreign' Headed Banks Are Few and Far Between—One Spoon of Gruel Does Not Make a Chef—How Is the 'Degree' of Opening Up Delineated?—Foreign Funded Banks—How Big a Piece of the Sky Should They Have?"]

[Text] Going to Xiamen and observing the foreign-funded banks, the foreign-funded banks in Xiamen have a peculiar look.

The Xiamen International Bank—the first Chinese-foreign joint venture bank;

The Xiamen Commercial Bank—a foreign bank with its headquarters in Chinese territory;

and what most interests people, Xiamen is the only Chinese city where foreign financial organizations conduct certain renminbi business.

At first glance, Xiamen's lead in the atmosphere of repeated opening of foreign banks must be a treasure land where heroes tread every street. Actually, there are eight branch banks, one headquarters bank, and one joint-venture bank in addition to four representative offices spread throughout the island of Xiamen. So, we say that they also are few and far between.

This then causes people to think about an issue: Should foreign-funded banks after all have a great deal of space?

Banks follow enterprises. Foreign-funded banks entered China after China's opening to the outside, import and export trade, and partially or wholly foreign-owned enterprises reached a certain level. They arose at the opportune time and we must save at the opportune time and develop at the opportune time. Xiamen currently has only ten "foreign" headed banks. According to someone in the Xiamen branch of the People's Bank of China responsible for foreign-funded banks, it suits the current scale of Xiamen's economy.

He gave a very simple example. Relatively few Xiamen enterprises have Japanese investment. Of the eight branch banks none is a Japanese bank, only the Japanese Long-term Trust Bank has some stock in the Xiamen International Bank. So, when Japanese-owned enterprises come to Xiamen to invest, they generally seek out the International Bank.

Because foreign-funded banks mainly serve partially or wholly foreign-owned enterprises, if partially or wholly foreign-owned enterprises do not develop, but the number of foreign-funded banks is blindly expanded, it would inevitably exacerbate inter-bank competition and the operations of some foreign-funded banks could even exceed the scope designated for the business.

In Xiamen in the intense foreign-funded bank competition in the area of international accounting, some people have begun to get out of line giving enterprise managers personal commissions to solicit business. On this point, He Zhonglin, who has been branch head of the Xiamen branch of the Standard Chartered Bank [Hong Kong] for five years as well as Cai Renshan, the newly-arrived general manager of the Xiamen Commercial Bank very disgustedly say, "We do not fear competition, we only fear unfair competition." Using irregular methods to seek business, can only erode the good financial environment like a mold.

It appears that careful selection of banks and careful determination of the number of banks are two criteria of the financial management department. A person in charge of the Xiamen office controlling foreign-funded banks emphasizes that foreign-funded banks are introduced in accordance with Xiamen's needs, not introducing as many as they feel like introducing. And as regards foreign-funded banks, we must carefully consider our own survival space and we cannot blindly "enter the market."

According to the most recent statistics of the office in charge of foreign-funded financial organizations for the headquarters of the People's Bank of China, China now has approximately 100 foreign-funded banking organizations distributed in eight coastal cities, five special zones and Shanghai, Guangzhou, and Dalian. As with other cities, Xiamen's foreign-funded banks generally conduct such business as foreign exchange savings and loans, foreign exchange bill discounts, foreign exchange vouchers, foreign exchange transactions, and credit investigation and counseling with People's Bank of China approval. What is different is that the Xiamen International Bank and the Xiamen branch of the Jiyou Bank, since 1988, have engaged in trial renminbi business. This is business that almost all foreign-funded banks in China yearn for. But general manager of the Xiamen International Bank Cao Guizhang blurts out, "It is very hard to do."

From the standards of the Xiamen International Bank in conducting renminbi loans—short-term, small amounts, and complete, we can see its cautious management. Cao always makes it clear that foreign-funded banks should not make renminbi business their main business.

Currently the bank has three sources of renminbi: Savings of partially or wholly foreign-owned enterprises, conversion of capital funds, and short-term inter-bank loans. People in the banking business all know that the savings of partially or wholly foreign-owned enterprises are in the bank for a very short time and just before they go they lick the bowl clean. In addition, those who engage in renminbi business also are affected by the state's overall currency policy. Last year when the state cleared up inter-bank short-term loans, the bank rejoiced no end because there were few short-term loans. At the same time, foreign-funded banks engaging in renminbi business also have to assume another level of risks. Their renminbi profits have to be converted to foreign currency to be accounted, and there is an exchange rate risk therein.

On the one hand, banks that deal with renminbi are treading on thin ice. On the other hand, partially or wholly foreign-owned enterprises hunger and thirst for renminbi. Wu Shanting, the vice president of the Xiamen branch of the Jiyou Bank, describes it in four words, "The monks are many and the gruel is meager." After all, it is extremely convenient for enterprises to have banks resolve their foreign currency problems at the same time. But whether this spoon of "gruel" is to satisfy the big customer or is to be given equitably to the medium-sized and small enterprises causes problems for the bank.

Last year Xiamen International Bank and Jiyou Bank's renminbi savings and loans made up about 4 percent of total savings and loans. Some estimate that even though the ten "foreign" headed banks all dealt in renminbi, their total business also only made up 3-4 percent.

But people's most frequent worry about opening up renminbi business to foreign-funded banks is the impact on domestic banks, that is to say that they might crowd the domestic banks' space.

Facts speak louder than words. Why is it that in the hand-to-hand combat of Chinese and foreign banks in the area of international finance, Xiamen's domestic banks have by no means been beaten? Xiamen's economic space has expanded. As regards trade alone, last year Xiamen's total imports and exports reached US\$4.09 billion. Exports were US\$2.35 billion of that, eighteen [as published] times that of ten years ago.

Opening up is inevitable, but it can be selective. Just as Mr. He Zhonglin, who is from Singapore said, "Singapore also has limits on foreign-funded banks dealing in Singapore dollars, and China opening up dealing in their currency to foreign-funded banks can designate an area—limited opening up."

#### Regulations on Foreign Investment in Airlines

94CE0643B Beijing GUOJI SHANGBAO in Chinese  
6 Jul 94 p 2

[Civil Aviation Administration Letter Number 448 (1994): "The Civil Aviation Administration of China and the Ministry of Foreign Trade and Economic Cooperation Notice Regarding the Policy on Foreign Firms' Investing in Civil Aviation"]

[Text] Provincial, autonomous region, and municipal people's governments and commissions of the State Council and subordinate organizations:

To accelerate development of civil aviation and improve the level of management and administration, with the agreement and approval of the State Council and following the principle of the state being the primary investor in construction, foreign firms are conditionally permitted to invest in civil aviation. Notification of relevant current and future policies is given below:

#### I. Foreign Firm Investment in Airport Construction.

A. Foreign firms are permitted to invest in the construction of civilian airfields (with the exception of joint military-civilian use airfields, hereafter) and flight areas (including runways, taxiways, and parking aprons) within the territory of the People's Republic of China in the form of joint ventures or cooperation. The Chinese side's investment should make up 51 percent or more of the enterprise's registered capital and the chairman of the board and the general manager will be Chinese.

B. Foreign investors in the construction of the flight areas of civilian airports will be given preferential consideration for investment in the construction of such airport associated projects as airport waiting buildings (with the exception of the construction and management of VIP lounges), freight warehouses, surface services, aircraft maintenance, in-flight food, hotels, restaurants,



and aviation fuel. Among these, the investment of the Chinese side in the construction of airport waiting buildings should be 51 percent or more and the chairman of the board and the general manager will be Chinese.

The foreign enterprise investing in the construction of civilian airport flight areas with permission can appropriately expand the scope of its operations and engage in such airport associated projects as airport waiting buildings, freight warehouses, surface services, aircraft maintenance, in-flight food, hotels, restaurants, and aviation fuel.

C. Foreign firm investment or participation in the administration of air traffic control systems invested in and managed by the state is not permitted.

#### II. Foreign Firm Investment in the Establishment of Air Transportation Enterprises.

A. Foreign firms are permitted to establish air transportation enterprises, primarily with foreign air transportation enterprise and Chinese air transportation enterprise joint investment in the form of joint ventures or cooperation.

B. Foreign firms are permitted to establish air transportation enterprises, primarily with foreign air transportation enterprises purchasing Chinese air transportation enterprise stock or mutual stock participation.

C. One or two foreign air transportation enterprises can be selected by the Civil Aviation Administration of China with relevant departments to invest in the establishment of air transportation enterprises on an experimental basis. After the experiment has succeeded, it can be further expanded.

D. In foreign firm investment in the establishment of air transportation enterprises, the foreign firm's registered capital or actual capital received from the air transportation enterprise must not exceed 35 percent and the voting rights of its representatives on the board of directors must not exceed 25 percent.

E. The chairman of the board and the general manager of an air transportation enterprise established with foreign investment both must be Chinese. Administrative personnel at the assistant general manager level and below may be selected from the best qualified Chinese and foreign personnel as required.

F. Air transportation enterprises that foreign firms have invested in establishing will receive equal treatment with the same type of domestic enterprise in every aspect of tax revenues.

G. Foreign airport authorities and aviation manufacturing enterprises cannot invest in the establishment of air transportation enterprises in China.

III. Foreign firms are permitted to invest in agriculture and forestry common use aviation enterprises in the

form of a joint venture or cooperation with the ratio of foreign firm investment agreed upon by both the Chinese and the foreign party.

IV. The agreement of the Civil Aviation Administration of China should first be requested for the establishment of foreign-funded civil aviation enterprises. Approval of projects above the norm have the report on the setting up of the project and the feasibility report approved by the State Planning Commission and the contracts and regulations approved by the Ministry of Foreign Trade and Economic Cooperation. Approval of projects below the norm have the report on the setting up of the project and the feasibility report approved by the Civil Aviation Administration of China and the report on contracts and regulations approved by the Ministry of Foreign Trade and Economic Cooperation. Foreign investment enterprises simply establishing airport associated projects listed in Article One, Section Two, are reported and approved in accordance with current regulations.

V. The Civil Aviation Administration of China and its regional administrative organizations by law carry out industrial management and supervision of the business activities of civil aviation enterprises with foreign investment.

VI. Investment or mainland stock participation in civil aviation enterprises by companies, enterprises, and other economic organizations or individuals from Taiwan, Hong Kong, or Macao are conducted based on this notice.

Civil Aviation Administration of China Ministry of Foreign Trade and Economic Cooperation 6 May 1994

#### Article Views Liaoning's Overseas Investment

94CE0630B Shenyang LIAONING RIBAO in Chinese  
19 Jul 94 p 6

[Article by Gao Kui (7559 7608): "Joining Enthusiastically in International Competition—General Description of How Liaoning Will Develop Investment Overseas"]

[Text] Developing overseas investment is an important component of the overall strategy of opening and reform, and expanding the use of foreign capital. Comrade Jiang Zemin was emphatic on this point in his report to the 14th National Party Congress: "We must enthusiastically expand our enterprises' investment in overseas and transnational operations". Since the implementation of reform and opening, China has made considerable progress in overseas investment. By 1993, 4,117 Chinese enterprises had invested overseas, and the total investment of the Chinese side had reached \$5 billion.

Like the national situation, the development of Liaoning's overseas investment has in general been healthy, and especially since 1991 when the State Council issued relevant documents setting out clearly the review and approval procedure for overseas investment. Investment

overseas was entered into administrative channels which have regulations to comply with. By 1993, there were 203 provincial enterprises which had invested overseas, with a total of about \$14 million invested. Of this, the Chinese side invested over \$6.4 million, or 44 percent of the total. Investment content has changed from the trade model of the initial phase of reform and opening to such industrial investment as real estate, restaurant service, resource exploration and general processing industry, etc.; the countries invested in not only include developing countries, but also a few developed nations such as the United States, Western Europe and Oceania, etc.

Investment overseas brings us a series of benefits: it plays an important role in maximizing our window to the world; expands information sources; brings in advanced foreign technology and resources which are scarce domestically; avoids import quotas in foreign countries; expands exports; promotes the internationalization of enterprises' operations; and breeds a pool of talented people.

Although Liaoning has definitely made progress in investing overseas, in both quantity and quality we are still somewhat backward compared with some southern provinces and cities. At present, the ratio of overseas investment to foreign capital absorbed is usually regarded as an important index of the true economic development power and level of a country or region. Generally speaking, the ratio of absorbing foreign investment and investment in foreign countries is 1 to 1.4 for developed nations and is on average 1 to 0.13 for developing nations. The average for China is 1 to 0.5, while the average ratio for Liaoning is far below the national average. This is obviously inappropriate given Liaoning's status as a major industrial province.

The development of overseas investment by Liaoning is affected chiefly by two things. One is that some people have trouble utilizing two types of capital, two types of resources, and two types of markets; they believe that in a situation where the nation has a shortage of capital, development of overseas investment is superfluous; others are content with the existing domestic market, and are reluctant to take risks abroad.

But on the other hand, there is a certain lack of purpose to some investment overseas. Looking at the macroscopic situation, it manifests itself in vague ideological guidance and little development on strategic key points. There is a lack of macroscopic unified planning and guidance on how to regulate the industrial mix for overseas investment, how to comprehensively develop and use foreign resources, capital and markets, and how to establish developmental policies for different countries and regions. Macroscopic management of overseas investment projects is weak, and the project review and approval system is incomplete, as is the managerial and supervisory system. Decentralized investment has still not formed economies of scale. The average investment amount from Liaoning is something over \$200,000, the

smallest was only \$10,000. There are projects in excess of \$1,000,000, but these are rare; in the macroscopic view, this is not sufficient to support and publicize overseas investment.

In order to have healthy development of overseas investment, we must first of all overcome the dichotomy in our understanding of overseas investment. Overseas investment is a genuine necessity, involving how we take fullest advantage of two types of capital, two markets, and two types of resources. What we refer to as using two types of capital has a dual meaning: one is exploiting some foreign capital through cooperation overseas; two is taking advantage of the State's favorable policies concerning overseas investment. At present, the State makes special commercial loans available on some scale for support of worthy overseas investment projects, but in the past we did not take good advantage of this capital. On this point, our understanding of overseas investment and the many ways of using capital has been too rigid when compared with southern provinces.

Overseas investment is an inevitable phase of economic development. In the nineties, China's economic system reform and opening to the outside has moved to a deeper level. Enterprises should not be satisfied with the simple processing cooperative style in which foreign businessmen are in charge of sales; rather, we should go beyond our borders, and join international competition, achieving a strategic transfer from the international production-type enterprises of the eighties to international operations-type enterprises in the nineties. Establish production bases in the world's major markets, and transfer secondary processing overseas, with such value-adding links as finishing, assembly, packing, etc., done at the market sites.

Of course, in our current situation of lacking major overseas investment capability, strengthening overseas investment work in Liaoning should develop under the unified supervision and coordination of the State. Make breakthroughs on key points, and enthusiastically, efficiently and appropriately form the economies of scale which will improve the efficiency of overseas investment enterprises.

#### GUOJI SHANGBAO Views NAFTA

94CE0649A Beijing GUOJI SHANGBAO in Chinese  
16 Jul 94 p 3

[Article by Chen Geng (7115 1649): "NAFTA Begins To Operate With More Mexican Activities"—Investments on the Increase Within NAFTA; NAFTA Nations Differ in Opinion for Further Extension]

[Text] The North American Free Trade Zone established on the basis of the North American Free Trade Agreement (NAFTA) went into operation on 1 January 1994 together with the European Economic Area (EEA). On the one hand, the various NAFTA provisions are being

timely implemented, and the economic and trade relations among Canada, the United States and Mexico have been rapidly strengthened; while on the other hand, the contradictions and problems among the three sides were also growing in the past several months.

### **I. NAFTA Is Being Executed**

As of now, there have been no major problems in the execution of relevant NAFTA provisions. According to the agreement, the import duties for some products of the member countries have been abolished or lowered by one-fifth to one-tenth. The import duties of some individual products have been lowered by one-fifteenth. Meanwhile, the first round of tax reductions has started in a speedy way on some products after tripartite negotiations. Various offices for the execution of the agreement such as the secretariat are being gradually set up and have begun to operate.

In order to periodically and regularly consult with one another on various economic and financial issues, the three sides decided to set up a new team for coordination—the North American Financial Team. They also promised to make arrangements for swap credits in order to stabilize the foreign exchange markets in the three countries.

It is reported that the volume of trade between the United States and Mexico reached a record high during the first quarter of 1994. The volume of trade between Canada and Mexico also reached a record peak between January and March this year.

Since the beginning of this year, Canada has relied even more on the U.S. market. For the first quarter of this year, the share of Canadian exports to the United States in its total volume of exports rose from 79 percent in the same period in 1993 to 83 percent. (The proportion of Canadian imports from the United States increased from 72 percent to 74 percent.)

The NAFTA has aroused the interests of the Canadian business circles in the Mexican market. The number of Canadian businessmen on business trips to Mexico has doubled, and Mexico has become a place with the most rapid growth of Canadian investments abroad. In 1993 alone, the total amount of Canadian investments in Mexico rose more than four and half times. With the establishment of the North American Free Trade Zone and With Mexico's increased efforts to relax its control over foreign investments, Canadian investments in Mexico are expected to grow even more rapidly within this year.

### **II. Mexico Becomes Even More Active**

Since the NAFTA goes into effect, the volume of exports from Mexico to the United States and Canada is far greater than that from the United States and Canada to Mexico. However, some specialists on economic and trade relations have predicted that with the rapid removal of Mexico's trade barriers, the flow of U.S. and

Canadian commodities to Mexico will soon be greater than that of Mexican merchandise to the United States and Canada.

It is reported that since November 1993, Mexicans have signed a number of contracts with U.S. businessmen involving large investments in the United States. They have purchased a large car company and a famous bakery and held the entire or partial ownership of the 39 hotels of the Weston Hotel chain in various localities in the United States. The recent large-scale Mexican business activities have made people treat Mexico with increased respect. The kind of financial strength demonstrated by Mexico in their business activities shows that the Mexican industrial and commercial enterprises have more financial resources than most people expect.

It is believed that the aforementioned business activities have made Mexican companies become more competent in competing with their U.S. counterparts by expanding their influence. On the other hand, such activities may also help the U.S. partners in U.S.-Mexican joint ventures deepen their understanding of the Mexican society.

A Mexican research institute believes that the most difficult period of reform and opening up since the late 80's is now gone forever. In the past, the average tariff rate had dropped from 80 percent to 10 percent overnight, and it would further drop from 10 percent to 0 percent within a period of 15 years in accordance with NAFTA provisions.

The situation since the establishment of the North American Free Trade Zone indicates that Mexicans seek to play a significant role in this zone.

### **III. Contradictions and Problems Increase**

Within the North American Free Trade Zone, trade frictions among Canada, the United States and Mexico have continuously surfaced one after another. Signs show that flames of war seem to appear once again in the battle for beer between Canada and the United States after both countries announced a "cease-fire." The protracted lumber war is in a state of deadlock. Both sides are sabre-rattling against each other on the issue of exporting U.S. wheat to Canada. Moreover, after the conclusion of the Uruguay Round of trade talks, the United States proposes at the conclusion of the Uruguay Round of trade talks that since all tariffs in both countries will be phased out by 1 January 1998 according to NAFTA, all Canadian quotas on farm products should also be abolished at the same time. The Canadian side regards this proposal as an unreasonable U.S. demand.

On the other side, Mexico has also begun its investigations on U.S. and Canadian subsidies for their wheat exports to Mexico. Finally such investigations may lead to levying anti-subsidy taxes on U.S. and Canadian wheat exports to Mexico.

Particularly what merits attention is the fact that no sooner when the three countries signed the agreement,



they themselves have quickened their pace to conclude bilateral or multi-lateral free trade agreements with some countries outside the North American Free Trade Zone in order to provide themselves with more rooms for manoeuvre.

All signs indicate that following the development of the NAFTA, it is possible that there will be more contradictions and problems among Canada, the United States and Mexico.

#### IV. Extension of Free Trade Zone

Even when deliberations were first being made on NAFTA, there were already signs showing that this agreement may spread southward. It is precisely for this reason that the "accession" provision near the end of the agreement was added. This issue of extending the free trade zone has been promptly brought up right after the signing of the NAFTA.

Latin America has a population of nearly 500 million and a total domestic output value of more than US\$1 trillion (with a per-capita domestic output value of over US\$2,000). Over the past several years, a great majority of Latin American countries have carried out reform and opened up to the outside world, and achieved rapid growth in economic affairs and trading. Latin America is definitely an area which has a strong appeal to the outside world as far as the market potential and the trend of development are concerned. Following the extension of the U.S.-Canadian Free Trade Zone to Mexico, it is becoming more evident that the North American Free Trade Zone will certainly spread southward.

However, due to the fact that the NAFTA has not set up a clear-cut procedure for new membership and that the United States, Canada and Mexico have their own plans on this issue, there are serious differences among themselves in this connection.

The United States intends to extend this free trade zone to the entire Western Hemisphere, but it has made no specific plan on how to achieve this goal. On the other hand, Canada and Mexico have already said that they are resolutely opposed to any U.S. Plan to sign bilateral free trade agreements with the various Latin American countries without their consent.

U.S. President Bill Clinton had announced that one of the most important items on the agenda at the forthcoming first summit meeting of Latin American countries to be held in Miami in December this year is the issue of extending the North American Free Trade Zone.

The nation on the top of the list for new NAFTA membership is Chile. It is believed that Chile is one of Latin American nations with relatively better conditions. Chile has already won U.S. President Clinton's initial nod to join the NAFTA. Other Latin American nations will soon follow suit. Nevertheless, there are tremendous political and economic differences among various Latin American countries. Even if it will not take

100 years just like what someone predicted, it would be an extremely difficult and protracted task to establish a free trade zone covering both North America and Latin America.

#### Liaoning Official Discusses GATT Accession

94CE0657A Shenyang BOHAI SHANGBAO in Chinese  
19 Jul 94 p 3

[Article by Qu Yunhou (2575 0061 0624), Deputy Secretary General, Liaoning Provincial GATT Research Association: "Issues Confronting China's 'Readmission' to GATT After Uruguay Round Negotiations"]

[Text] Summary: With the Uruguay Round concluded, China has to focus on three issues in connection with its "readmission" to GATT: First, one month before the Uruguay Round agreements come into effect, complete the "readmission" consultation process, i.e., at the third working group meeting the end of July 1994, conclude negotiations for China's "readmission," finalize the draft protocol and related documents and, after review by the China's National People's Congress Standing Committee and acceptance by the GATT Secretariat scheduled to meet in September, submit them to GATT by November 30. Second, negotiate "readmission" issues related to trade concerning intellectual property rights, non-tariff and investment measures, import-export market access and reform of trade management mechanism; China needs to negotiate these issues bilaterally or multilaterally with other GATT contracting parties. Third, determine how to correctly deal with the trade protection issue; for GATT is a body which integrates contradictions, trying to negotiate for the elimination of trade protectionism on the one hand, but striving to negotiate [the terms of] trade protection on the other. The guiding principle for China is: "readmission" to GATT should not be equated with non-protection of our own national industries; but [Chinese] enterprises should not put all hopes on trade protection [by their government]; and China should research into [what may be appropriate] protection measures under these new circumstances.

Agreement on the Uruguay Round draft "Final Act" was finally reached on 15 December, 1993, ending seven long years of negotiations. At this point, three issues should be addressed in connection with China's "readmission" to GATT: First, the reality of "readmission" time table; second, the specific issues in "readmission" negotiations; and third, the question of how to correctly deal with the trade protection issue.

#### The "Readmission" Time Table

At the conclusion of the Uruguay Round, it was decided that the next step would be the signing ceremony to be held in Morocco in April, 1994. Signing of the "Final Act" involves approval of two resolutions: the first concerns the various "admission" conditions for new members including tariff reductions required by the Uruguay Round and preliminary agreement to open up

service trade; the second is the establishment of an organizing committee for the World Trade Organization to oversee and speed up implementation of various agreements reached in the Uruguay Round, including handling negotiations of GATT entry applications. At present, countries applying for entry include some 20 countries and regions such as Albania, Mongolia, Nepal, PRC, Province of Taiwan and Ecuador.

After signing the Uruguay Round agreements, the dates for the agreements coming into effect will be discussed; two proposals are now pending: one is 1 January, 1995, the other 1 July, 1995. China must complete the "readmission" processing one month before the effective date and submit to GATT the protocol ratified by the National People's Congress before China can enjoy the fruits of the Uruguay Round. We should use the first date of 1 January 1995 in our action time table.

China's GATT negotiating team expects to conclude "readmission" negotiations in three sessions held in March, May, and July, 1994. The "readmission" draft protocol and attachments are expected to be completed at the early July negotiating session. After the documents are approved by the GATT Secretariat meeting for September, they will be submitted to the National People's Congress for ratification, then to GATT on or before 30 November, 1994.

#### Issues in Readmission Negotiations

The Uruguay Round agreements cover five main categories: revision of the GATT protocol, service trade, protection of intellectual property rights, trade-related investments, and establishment of a World Trade Organization. In connection with "readmission," China has to negotiate these issues with various contracting parties. At present, progress is being made in the major areas. Take the intellectual property rights issue, China's laws and regulations are quite comprehensive and should not require any major revisions to comply with the GATT requirements. On trade-related investment measures, these will be determined by conditions in each nation during a specified transitional period after GATT is in effect. In general, the transitional period is two years for developed countries, five years for developing countries, and as long as seven years for underdeveloped countries. As for the area of service trade, China has already made clear its position during the negotiations that the Uruguay Round allows developing countries to determine the extent of access to, and the conditions for, opening their markets on the basis of their domestic circumstances. China has insisted on readmission on these terms, which cannot be re-negotiated; but some developed countries consider that China has not done enough in opening up its markets and request that bilateral talks be continued. In addition, "readmission" to GATT means that China is required as a member to participate in multilateral talks dealing with such issues as procedures for import-export market access and trade management system reform. Developed countries represented by the European Union firmly insist on including

in the agreements special trade protection articles, as that subject has bearing on implementation of anti-dumping measures, indicating that they are being rather prudent [in this area]. One must admit that if the above issue is not resolved satisfactorily, it will lead to mutual retaliations; further and careful consultations are, therefore, advisable.

On tariff reductions, China's proposal to bind its tariffs at 45 percent has not been accepted. China is asked instead to agree to binding at 35 percent; some countries even suggest that China agree to bind at 15-25 percent. According to the Uruguay Round accord, after China has concluded "readmission" negotiations, the agreed tariff reductions will be carried out in stages prior to the end of 1998, and that imported products will be divided into five categories and 20 percent of the tariff reductions will be carried out each year. The tariff rate is to be cut by one-half in three years, with two tariff reductions totaling 15 percent, so that the average tariff rate will be reduced to 20 percent by the end of the process.

On negotiations of non-tariff measures, as of 1992, imports subject to China's non-tariff measures included 1,247 items, amounting to 20 percent of the total taxable items, or 46.7 percent of all imports that year. As a result of the Sino-U.S. market access talks, China has reduced that number by two-third. By 1997, only 466 items will remain, of which 259 are machinery and electronics products and 207 non-electronic products, accounting for 7.7 percent of the total taxable items; and there was agreement to remove protection from 232 products over the course of 3-6 years, or 49.8 percent [of imports subject to non-tariff measures].

At present, the bilateral talks China has held with other contracting countries have progressed satisfactorily. Tariff reduction agreements have been concluded with Uruguay, Turkey, Portugal, the Czech Republic and the Slovak Republic. Canada, Australia and New Zealand have started [tariff reduction] talks with China; among them, Canada has submitted a negotiating list of 560 items with the request that tariff duties be reduced from over 35 percent to 20 percent; Australia has submitted a list of 160 items, with the request that tariff rates on them be reduced to 30, 20, and zero percent; New Zealand has submitted a list of 264 dutiable commodities with a request that tariff rates on these be reduced 50 percent and, in the case of 20 items, more than 50 percent. Agreement was reached with the U.S. in the 1992 market access talks in which tariffs on 200 dutiable items in 50 commodity categories were reduced by 50 percent; after nine months of preparations, Japan has put forward its list of requested tariff reductions in March, 1994.

#### How to Correctly Deal With Protection

GATT seeks to cut down on trade protection talks but, at the same time, strives to negotiate terms for trade protection. Contracting parties are always asking the other parties for reduction of trade protection, but every

one tries its best to protect its own trade. GATT is therefore a system which integrates the contradiction. The guiding principle for China should be based on three statements: China's "readmission" to GATT does not mean non-protection of our national industries; [Chinese] enterprises, however, cannot pin all hopes on protection [by the government]; but the government should research into what protection measures may be appropriate under these new circumstances. The fundamental reason [for these statements] is based on the special characteristics of GATT:

First, the free trade system of GATT is the mainstay of world trade today, which is also the heart of the world economic system. But in reality, trade liberalization exists only as a goal to be sought. Trade protectionism, objectively viewed, remains very much alive within the multilateral free trade system.

Second, in regulating or adjusting the contradictions, GATT relies mainly on compromise and persuasion; it does not force governments of contracting countries to adopt trade policies which do not benefit with their domestic economies. In reality, all nations resort to protectionism sometimes, and adopt free trade policy at other times, and GATT principles have not been strictly adhered to.

Third, within the GATT framework, trades involving agricultural and textile products, intellectual property rights, service trade, etc. do not conform to basic GATT principles and protectionism continues to prevail.

Fourth, developing countries, in order to protect their nascent domestic industries, may invoke relevant GATT articles and negotiate to raise duties on imports which are comparable to products of protected domestic industries, and use non-tariff barriers to protect development of specific industries.

Fifth, under the basic principles of GATT, there are many "exceptions." These "exceptions" specify that contracting parties will have the opportunity to adopt import control measures, or take actions contrary to GATT principles.

Therefore, it can be said that free trade does not mean rejection of government's protection of trade, but does mean that the methods and extent of trade protection are always changing. These can now be seen in two notable areas: First, the traditional form of protection is changing to protection by international customary exceptions. Traditional protection measures include policy measures, import permits management, foreign exchange control, differential treatment by locality, etc. Protection by international customary exceptions include the different levels of tariff duties and [degrees of] transparency of non-tariff barriers. Second, the main tactics of international trade protection no longer rely on tariff barriers but on the use of non-tariff barriers.

From above, it can be said that in terms of China's "readmission" to GATT, earlier is better than later. This

is because in recent years, Asian countries such as India and Latin American countries such as Brazil have all adopted measures to liberalize trade, and yet China's economic growth is clearly greater than those of these countries. The later "readmission" is concluded and the longer that takes, the higher the prices to be paid. But this is not the same as saying that in order to get it done quickly, we can afford to cut corners in the preparatory work. In terms of strategy, we must carefully calculate gains versus drawbacks and costs versus benefits. Some localities and enterprises [in China] lack any understanding of and make no preparation for the impact which will inevitably follow China's "readmission." In this regard, the issue is not one of talking about the "readmission" impact in general terms, but of making earnest preparations and adopting correct measures based on experiences to ensure a smooth passage through the impact stage after "readmission."

Further, it is necessary to be prepared with selected [appropriate] protection measures. After China's "readmission" and following GATT regulations, we can implement measures to protect our nascent industries, but the questions are what industries do we want to protect, and how do we choose them.

To repeat, we must adopt concrete trade protection policies.

The GATT requirements on trade protection are very strict, and specify that protection be of limited and not indefinite duration, and that it will gradually be phased out over time. Within the time frame in which protection is permitted, concerned departments and enterprises [in China], aside from prescribing protection measures designed to be phased out over time and making concrete plans and taking steps leading to [competition in] the international market, will also have to establish specialized organizations to monitor progress and ensure compliance. The Republic of Korea, e.g., instituted an open type of protection for its nascent industries which included periodic evaluations of the industries' performances, gave continued protection to those industries which quickly developed competitive abilities, but eliminated protection for those which performed poorly in this regard, the objective being to enable these industries to become independent as soon as possible and to enter into international market [competition]. Brazil, on the hand, has protected its aircraft industry for a long period of time, and even today the industry has not developed the ability to compete in the international market. China therefore must earnestly consult experiences of other developing countries. [Some people think that] once the products of certain enterprises are included on a protected list, then all problems are solved. That is a negative attitude. If that kind of thinking guides our action, we will surely end up protecting backwardness which will not benefit economic development. This is the reason why certain industries in many developing countries fail to grow out of their nascent industry status after their countries enter the GATT. We should therefore adopt concrete trade protection measures.



## Economic Zones

### Officials View Future, Role of Special Economic Zones

#### Shenzhen Official on 'New Superiority'

94CE0641A Shenzhen SHENZHEN TEQU BAO  
in Chinese 3 Jul 94 p 10

[Article by Liu Wenshao (0491 2429 7300), deputy secretary, Shenzhen Municipal CPC Committee: "Let Us Exert Ourselves To Increase and Create New Superiorities at the Shenzhen Special Economic Zone"]

[Text] On his recent inspection tour of Guangdong, General Secretary Jiang Zemin gave an important speech on the question of the development of the special economic zones [SEZ's], in which he fully affirmed the great contributions that the SEZ's have made to reform, opening up, and modernization throughout the whole country. He pointed out the direction for the future development of the SEZ's and set forth new demands as to the tasks to be accomplished by the SEZ's. He emphatically pointed out that the SEZ's are to increase and create new superiorities and thereby raise themselves to an even higher level of accomplishment. Let us earnestly study and fully comprehend the spirit of the general secretary's speech and firmly resolve to carry out his design.

Creating new superiorities shall be the slogan for future constructive action in all the SEZ's as they now enter into a new phase of their development. The Shenzhen SEZ has already been operating for almost 15 years and is now entering a new developmental stage, which is, as the general secretary pointed out, "a new stage of raising the overall quality and creating new superiorities in the SEZ." In its practice of more than ten years, the Shenzhen SEZ has developed some superiorities of its own, but this is still not enough. To meet the needs of our nationwide reform, opening up, and modernization projects, and to achieve the magnificent goal of special zone construction, we must go one step further and create new superiorities.

Increasing and creating new superiorities is an urgent need for the development of the new and special characteristics of the SEZ's. After Comrade Deng Xiaoping's southern inspection tour, reform and opening up made rapid progress throughout the whole country, and certain preferential policies, originally intended for the SEZ's, have become so generalized that a problem arose which has the effect that, as some comrades express it, "the special zones" are no more "special." In this respect, the general secretary pointed out: "Let us develop new and special characteristics in the SEZ's by creating new superiorities, and let us give full scope to all the new superiorities of the SEZ's." Creating new superiorities is essentially also the way that the Shenzhen SEZ should follow in order to develop new characteristics in addition to maintaining all its former special characteristics.

Increasing and creating new superiorities means taking full account of the fundamental advantages of location and functions of the SEZ's. In his speech, the general secretary earnestly proclaimed that the central authorities do not contemplate any changes in their resolve to develop the SEZ's, nor in their fundamental policies concerning the SEZ's, also no changes in the position and functions of the SEZ's within the ongoing nationwide reform, opening up, and modernization projects. If Shenzhen SEZ is to preserve its own position and to continue its effectiveness as "widow to the outside world," as testing ground, and as advance brigade, it simply must create new superiorities. Shenzhen has the capability, the strength, the faculty of diffusing beneficial influences, and should thus give full scope to action that will bring about the creation of new superiorities.

Increasing and creating new superiorities will be fundamental for Shenzhen's ability to make an even greater contribution to the long-term prosperity of Hong Kong and Macao. In his speech, the general secretary in fact demanded of Shenzhen that it make greater contributions for the benefit of the state's recovery of and later exercise of sovereignty over Hong Kong and Macao, and also to preserve long-term prosperity in Hong Kong and in Macao. Shenzhen is neighbor to Hong Kong and extremely closely linked with Hong Kong. Fellow countrymen from Hong Kong and Macao have all along paid close attention to the development of Shenzhen. The more effective Shenzhen had been able to build up its material and spiritual civilization, and the stronger the superiorities of Shenzhen, the more important had become its role in relation to Hong Kong and Macao.

The new superiorities that Shenzhen is about to create will in my opinion be, characteristically, in the following three areas:

**First, those of an internal character.** In the past, we always spoke of Shenzhen as having two superiorities: first, its geographical location, i.e., its closeness to Hong Kong, a superiority that makes it geographically unique; and second, the superiority of operating under preferential policies and being allowed to adopt flexible measures. Of these two superiorities, one is a natural one, and the other has been bestowed on by the central authorities. If new superiorities are now to be created, our attention turns to superiorities that can be engendered internally within the SEZ, which means hard training to enhance internal faculties and giving scope to inherent strength. These internal superiorities will mainly consist of accelerating and taking the lead in establishing the structure and operational mechanisms of socialist market economy, a broader opening up to the outside world, an effective readjustment of the economic structure, and development of high and new-technology industries; devoting substantial effort to the improvement of management, staying in the forefront with those that introduce and improve modernized management; further improvement of the investment climate, which comprises perfecting the "hard" environment of the

infrastructure, raising working efficiency and service quality, and perfecting such areas of the "soft" environment as laws and regulations, as well as perfecting all urban functions; improving the spiritual civilization, effectively building up democracy, effectively ensuring public order; setting up and training a contingent of talents of high quality; adhering more closely to international practices in the handling of affairs, effectively establishing links with the international market and with Hong Kong, etc. All these superiorities will only come about through our own arduous and painstaking work.

**Second, those of an overall character.** The new superiorities that we intend to create will not be superiorities in merely one limited area, but rather overall superiorities for the SEZ as a whole. The general secretary has clearly pointed out: "Creating superiorities in the SEZ comprises creating economic superiorities, superiority of a material and of a spiritual nature, superiority of ideology and politics, and the superiority of an overall progress of society." We shall therefore exert great efforts to create overall superiorities pertaining to the entire SEZ, and we must not be satisfied with a superiority in only one particular area, but must raise the standards of the material and spiritual civilization to a higher level. This is an even higher demand that the CPC Central Committee poses for us, and is a great trust that is being placed in the SEZ. Raising the overall quality of the SEZ comprises raising qualities throughout, i.e. from leadership to grassroots, from cadres to masses, in all trades and professions, and in all areas, all must congeal into one entity throughout the entire SEZ.

**Third, those of own original creativity.** In his speech, the general secretary demanded of us: "Combine theory with practice, blend learning from the experiences of others with originality of own creations." In creating our new superiorities we must start out from our national conditions and the realities of Shenzhen's position. We must draw from international experiences, and through our creative effort recreate them so that they will have Chinese characteristics, and be of Chinese style and Chinese manner. In this sense, there will indeed be originality in them. For instance, how to structure socialist market economy, how to set up a system of modern enterprises, how to conduct economic, legal, administrative, and social management, are all issues that shall be the subjects of our explorations and creative action. Especially when creating superiority in the area of spiritual civilization and when creating ideological-political superiorities and the superiority of overall social progress, we must display an even larger measure of a pioneering and creatively active spirit. When we make use of what is useful in the experiences of capitalism, we must be clearly aware of the fact that there is a fundamental difference between socialism and capitalism, a difference that must not be overlooked. In short, guided by Comrade Deng Xiaoping's theory of socialism with Chinese characteristics, we must emancipate our minds, seek truth from facts, boldly explore, seek new ways, and adopt new measures.

How to create new superiorities? First, we must gain a firm understanding of the situation, earnestly study and comprehend the spirit of the general secretary's speech, have all the cadres and the masses of the Shenzhen SEZ fully understand the importance, necessity, and arduous nature of creating new superiorities. We must arouse enthusiasm among the people, imbue them with confidence, pool the wisdom and efforts of everyone, and exert utmost effort in creating new superiorities. Creating new superiorities is a complex project of system engineering; it makes high demands and is beset with great difficulties. Shenzhen has already attained great achievements in its construction, but our work still shows many different problems and many weak links. We must maintain a sober mind, affirm successes, seek out shortcomings, and reach a common understanding. Second, we must firmly adhere to a plan. We must accurately analyze the actual conditions of the SEZ and scientifically determine our various plans and policies. These shall include an overall plan for the development of the SEZ, as well as plans for the various different projects, such as reform, opening up, development, and the buildup of a cultured city. We must not only have a plan for the city as a whole, but each sector and each enterprise must also have its own plan. This is the only way to reduce blindness of activities, to heighten consciousness, and to achieve in an orderly, well-attuned manner the step-by-step creation of new superiorities. Third, we must definitely ensure implementation. Whether we can or cannot achieve new superiorities depends in the end on whether we can really implement the various projects and concretely resolve one by one the various problems in our work. This year, our work at Shenzhen has a distinct characteristic, namely it is carried out in all earnest, a real effort is being exerted, real work is being done, various problems are being resolved in a down-to-earth manner, and some successes have indeed already been achieved. We shall all, high and low, exert joint efforts and truly do a real job, in order to effectively implement the directives of the general secretary.

#### Official Discusses 'Creating a Hong Kong'

94CE0641B Shenzhen SHENZHEN TEQU BAO  
in Chinese 3 Jul 94 p 10

[Own correspondent Deng Ziqiang (6772 5261 1730) interviewing Dr Zhou Wenzhang (0719 2429 1757): "Special Zone is After All Still Special Zone—Interview of Dr Zhou Wenzhang, member of the State Restructuring of the Economic System Commission"]

[Text] Although I had read some of Zhou Wenzhang's articles some time ago, I met him only now when he came to Shenzhen for a tour of inspection and research. Before this doctor of philosophy was transferred last year to the State Restructuring of the Economic System Commission, he had been an assistant research fellow at the Hainan Provincial Center for Socioeconomic Development and had worked in the Hainan Special Economic

Zone [SEZ] for about five years. he had written a book on Hainan entitled, *Green Island, High Thoughts*, and had also been editor-in-chief of the large *Collectanea of International Practices*. During his term on Hainan, he had expressed many opinions concerning the development of the SEZ's, and he published once a year the "International Palm Festival on Hainan Island." The Hainan Provincial People's Government had named him "excellent specialist, having made outstanding contributions." Our discussion, of course, dealt with the SEZ's.

Deng Ziqiang: Presently, there has been comment, domestically and abroad, on the SEZ's to the effect that in view of the appearance all over the country of development zones and opened-up zones, and in view of the initiation of the socialist market economy, the SEZ's have lost much of their superiority, that their position will gradually decline, and that their functions will also gradually weaken. How do you see this problem?

Zhou Wenzhang: During his recent inspection tour of Guangdong, General Secretary Jiang Zemin clearly enunciated in an important directive concerning the SEZ's that there would be no change in the position and functions of the SEZ's. On studying Comrade Jiang Zemin's speech, I myself being a scholar with a long-term interest in the SEZ's have felt very much heartened. After all these years of their development, the SEZ's have become something of a "special zone force." This "force" can be understood as a "force of superiority," or also as a force of "potential force." In physics "potential force" is an energy derived from the particular position of an object. To put it briefly, "special zone force" is the objective state of strong magnetism and attraction, or a cohesive force, which the SEZ can engender due to its unique advantages and historical position. This state consists of policy advantages, advantages of talents at their disposal, superior infrastructures, superior economic strength, and the human and geographical superiorities combined into one and built up by the SEZ's over all these years; it is not superiority in one single area. If we look at only one particular area, the SEZ may not possess any superiority there, but if all factors are taken together, its "force" cannot be matched by any other development zone or opened-up zone. This is the inert potential of the "special zone force" alone. On the other hand, the development zones of the interior are mostly small of area and of a one-sided capability, besides, they are still new and cannot develop within a short time the attraction of and operate on the same scale as the SEZ's. Furthermore, SEZ's have come into being on the scale of provinces and municipalities. They are social entities whose objective is extraordinary, comprehensive development in the social, economic, and cultural areas, capable of stimulating investors toward long-term and large-scale investment plans. Although the development zones and open zones of the interior can also attract some domestic and overseas investors, the SEZ's, due to the formation and strengthening of the "special zone force," are after all still special zones, and

their magnetism and attraction for investors was and still is very strong. Besides, we also have to recognize that funds invested in the interior are not all "wrested" from the SEZ's or "split off" from the SEZ's. The total amount of investments that can be attracted is not a fixed quantity like a "cake," where every piece cut off for you leaves a smaller piece for me. Investments from abroad in SEZ's and in non-SEZ zones can at the same time substantially increase or decrease. Under no circumstances must we therefore assume that the capital, now so freely flowing into Pudong, would certainly flow into the SEZ's, if there were not this rush to develop Pudong.

Deng: The term "special zones force" that you have coined is rather novel and, on analysis, appears to make sense, but we have now the situation that many enterprises in the SEZ's, one after the other, shift their investments to areas outside the SEZ's. People call this phenomenon the "fund outflow."

Zhou: At the same time as there is this "fund outflow" there is also, as your newspaper reported, a constant "inflow" of foreign capital into Shenzhen and other SEZ's. Investments enter and leave; this has to do with the regulatory functions of the economic laws in the investment market. Enterprises in the SEZ's have grown to maturity and are looking for new investment outlets; some will then shift their interests to the interior. Domestic and foreign, new and old investors are also attracted by the SEZ's, and are coming in large numbers to invest in the SEZ's. The "inrush of capital" is of course felt most welcome by the people in the SEZ's, but the people of the SEZ's need also not grieve over the "outflow of capital," because this is one of the achievements of the SEZ's that cannot be left unrecognized—the SEZ's have the effect of diffusing beneficial influences throughout the entire country. This is also one of the missions of the SEZ's, as pointed out by Comrade Jiang Zemin when he said that the SEZ's "must consciously and continuously make their own contributions toward the unified development of socialist market economy throughout the entire country." Referring again to the "fund outflow" from enterprises in the SEZ's, that in itself is a development of the enterprises in the SEZ's, as such also a development of the SEZ economy, in the same way that domestic and foreign enterprises invest in the SEZ's, seeking and realizing their own development.

Deng: Comrade Jiang Zemin demanded that the SEZ's create new superiorities and thereby raise themselves to a higher level. This is also a necessity in the course of the development of the SEZ's themselves. As the SEZ's will now have to face competition and challenges in the investment market and with regard to the preferential policies they have enjoyed in the past, by what means will the SEZ's maintain and even increase their attractiveness?

Zhou: As things are now and will be in future, they will mainly rely on the excellent "soft" environment for investments, i.e., on the system of human conditions,



composed of various human elements and relevant factors derived from them, as for instance, the human quality, the economic system, productivity, social atmosphere, social order, a socialized service system, etc. Its efficacy and functions are to give excellent service to investors, guarantee security, and a stimulating spiritual, cultural atmosphere.

Deng: Judging by the development of several SEZ's, investments in the buildup of the "hard" environment have generally proceeded at an extraordinarily rapid pace, but investments in the "soft" environment have frequently stalled and fallen behind improvements in the "hard" environment.

Zhou: There are two reasons for that: First, it is the result of the different degrees of importance that people attach to them. In the SEZ's, especially in those developed earlier, investors gave most or all attention to the conditions of the "hard" environment, because the "hard" environment is the most external, most visible, and the most fundamental thing, the indicator easily used by investors to measure whether a region is suitable for large-scale development. The SEZ's have therefore frequently given primary attention to investments in the buildup of the "hard" environment. A second reason is determined by the characteristics of the two environments themselves. The various elements that make up the "hard" environment are crystallization of worldwide science and technology encompassing all humanity, little restrained by traditions or customs; its buildup can smoothly start as soon as funds and technical conditions are present. On the other hand, every development and perfection by investments in the "soft" environment seems to mean a breakthrough in or transgression of traditions and customs. Realization here is therefore only possible by overcoming the huge resistance of traditions and customs, and the resistance by traditions and customs are more often than not very difficult to overcome. Besides, changes in the "soft" environment are frequently capricious, progress is followed by regression, seemingly resolved problems pop up again under new circumstances. For these reasons, the "hard" environment is conducive to regular movement toward internationalization and modernization, while the "soft" environment frequently, and for long period of time, preserves a strong local, national, and traditional character.

Deng: Your analysis just now of the peculiarity of the "soft" environment is very interesting. From its very start, Shenzhen has given primary attention to the buildup of the "soft" environment, but up to now some areas still leave much to be desired. Looking at it from the standpoint of the peculiarities of the "soft" environment, it seems that the continuous perfection of the "hard" environment must be accompanied at the same time by an intensified effort to firmly take in hand the buildup of the "soft" environment.

Zhou: As I said before, the SEZ's are now facing a situation in which investment markets increase and the

advantages of preferential state policies decline. We must therefore give more attention to building up the "soft" environment and to thereby preserve and strengthen the SEZs' attractiveness to investors. For instance, we must improve reform, work hard to institute the new system of socialist market economy ahead of everyone else in the country, shift from former reliance on preferential state policies to relying on the superiority of the system itself. We must establish an equal and fair new order of market economy, enhance the legal system, raise the moral level of society, foster throughout the entire society the excellent "investor first" attitude, provide a safe environment of social order, and we must effectively, and to the fullest measure, take advantage of the state's SEZ policy. In addition to a continuous improvement of the "hard" environment, society must strengthen the existing "special zone force," in order to cope with the unfavorable effects of the weakening of preferential state policy. In this way, the SEZ's will still remain an attractive outlet for domestic and foreign investors.

#### Official Explains 'SEZ Superiority'

94CE0641C Shenzhen SHENZHEN TEQU BAO  
in Chinese 6 Jul 94 p 10

[Article by Professor Liao Yuehui (1394 2492 2547), deputy president, Party School of the Shenzhen Municipal CPC Committee: "Let Us Effectively Accomplish the Grand Affair of 'Creating Another Hong Kong'"]

[Text] At this critical juncture, two years after publication of Deng Xiaoping's important speech at the end of his southern inspection tour, and after rapid development of special economic zones [SEZ's] throughout China, Jiang Zemin, general secretary of the CPC Central Committee, enunciated an important directive when he visited Guangzhou Province and inspected Shenzhen and Zhuhai; he demanded that the SEZ's increase and create new superiorities and raise themselves to a higher level of accomplishment. The general secretary particularly emphasized that China's SEZ's, especially those of Shenzhen and Zhuhai, shall continue to make even greater contributions to benefit the state's resumption of sovereignty over Hong Kong and Macau and in the interest of maintaining long-term prosperity in Hong Kong and Macau. He clearly and definitely pointed out that the better socialist market economy, socialist democracy, and socialist spiritual civilization are developed in the Shenzhen and Zhuhai SEZ's, the more substantial will the effects be on maintaining long-term prosperity in Hong Kong and Macau. I believe that Shenzhen's implementation of General Secretary Jiang Zemin's directive, namely to work hard to accomplish the grand affair of "creating another Hong Kong," is a major task that will be fulfilled by Shenzhen in that it will bring its own special superiorities into play, will increase and create overall superiorities, and will continue to make even greater contributions to the state.

1) By "creating another Hong Kong" ahead of anyone else, the Shenzhen SEZ will be able to better bring its

unique superiorities into play and to increasingly create overall superiorities, thus having the SEZ progress toward a new and higher stage. The question of "creating another Hong Kong" was first brought up by Comrade Deng Xiaoping. In a speech in 1988 he pointed out that we not only want to maintain the prosperity and stability of Hong Kong, but also want to create several Hong Kongs in the interior. Early in 1992, Deng Xiaoping inspected Shenzhen and expressed his complete approval of the way in which the Shenzhen SEZ intended to create, ahead of everyone else, a socialist "Hong Kong." Through its "creation of another Hong Kong," the Shenzhen SEZ will give even greater scope to its function in the nationwide reform and opening up to the outside world. I believe, setting forth the issue of "creating another Hong Kong," is, as far as the whole country is concerned, an attempt to resolve a key point and enact a breakthrough in reform and opening up. Only after attaining a state of overall and multilevel opening up to the outside world, and only after creating inside of China several economic centers similar to Hong Kong, will it be possible to more effectively push on with the nationwide reform, opening up, and economic development, also to better integrate China's economy with the economic system of the world, and also to improve participation in the international division of labor, international exchanges, and international competition. As far as the Shenzhen SEZ is concerned, the question of "creating another Hong Kong" means making demands on itself by targeting at the establishment of a foreign trade-oriented, multifunctional metropolis of international character, and aiming at Hong Kong's economic development and economic functions. It means starting out from a high starting point and adopting high criteria in planning the future developmental strategy of the SEZ, and aiming at effecting a major turn and a major breakthrough in the economic development of the SEZ. Only by aiming at "creating another Hong Kong" in plans for its own future, starting out from a high starting point and setting high criteria in its demands on itself, only by finding the accurate position of the Shenzhen SEZ within the national economic development and within the world's economic development, can the Shenzhen SEZ bring its own unique superiorities more effectively into play and increase and create its overall superiorities. "Determining position" is an important matter for the SEZ; it requires that a common understanding be attained, and that the position of the Shenzhen SEZ be determined according to Comrade Deng Xiaoping's directive of "creating another Hong Kong," also according to the new demands made on SEZ's by the CPC Central Committee. This is the only way that the Shenzhen SEZ can bring its unique superiorities of closeness to Hong Kong, facility of entry and departure, easy access to information, and its many links with the outside world fully into play. It is also the only possible way for it to increase and create overall superiorities, including those in the areas of economics, technology, qualified personnel, spiritual civilization, and social advancement. It is also the only possible way for the

Shenzhen SEZ to gradually and in stages catch up with Hong Kong in economic development. If the problem of determining the position of the Shenzhen SEZ is not appropriately resolved, using too low a starting point and too low criteria for demands on the SEZ, or if advancing at too slow a pace, staying still at the level once reached, the buildup of the SEZ would lack a long-term objective, and this would make it impossible for it to truly advance toward a new and higher level.

2) Shenzhen's "creation of another Hong Kong" ahead of anyone else would help materialize the "one country, two systems" idea and to maintain long-term prosperity in Hong Kong and Macau. The "one country, two systems" idea, set forth by Deng Xiaoping, is an organic component of the theory of building socialism with Chinese characteristics. "Creating another Hong Kong" does not mean that Shenzhen will transfer Hong Kong's capitalist system to Shenzhen; Shenzhen is a socialist economic zone and operates a socialist system, it can never become an expansion or extension of the capitalist system of Hong Kong. This point must be clearly and soberly recognized, and in political respects there must be not the slightest ambiguity about it. However, in economic respects, the economic development of the Shenzhen SEZ must make full use of Hong Kong, must maintain close contacts with Hong Kong, must learn from Hong Kong's experiences, most strengthen coordinated action with Hong Kong, and must achieve integration of the Shenzhen and Hong Kong economies. The better this is done, the better will Shenzhen's economy develop, and the better the possibility of catching up with or overtaking Hong Kong. While maintaining the socialist system, the Shenzhen SEZ may aim at overtaking Hong Kong, at creating "hard" and "soft" environments similar to those in Hong Kong, as beneficial for economic development, and to gradually achieve a degree of prosperity and a level of economic development as that of Hong Kong. It will then be possible to fully demonstrate the superiority of the socialist system, the "one country, two systems" idea will then become feasible, and the necessity and accuracy of the "one country, two systems" policy will then also be vindicated. If the Shenzhen SEZ is not operated effectively, if it is not developing in an ideal way, if it cannot gradually reduce its economic disparity with Hong Kong, then it will be impossible to fully realize the vitality and vigor of the "one country, two systems" policy. If the Shenzhen SEZ "creates another Hong Kong" ahead of anyone else, if the Shenzhen SEZ is gradually built up into a socialist "Hong Kong," this would be beneficial for Shenzhen and Hong Kong in that their superiorities would mutually complement each other, they would mutually reciprocate and benefit from each other, and they would mutually stimulate each other. On his visit to Shenzhen, the former prime minister of Singapore Lee Kuan Yew said that Shenzhen should dare compete with Hong Kong. I believe, competition, which to a certain extent is really necessary, is nothing bad, it provides a certain stimulus. The more Shenzhen will develop, the more will it use

Hong Kong, the more will it utilize Hong Kong for gaining entry into the world, and this will also provide opportunities and favorable conditions for Hong Kong's further development. Some say, Taiwan looks at Hong Kong, and Hong Kong looks at Shenzhen. Shenzhen's prosperity, stability, and overall progress is bound to have an influence on Hong Kong, Macau, and Taiwan, urging on completion of the grand undertaking of unifying the motherland, as it will also bring about the rise and development of the Chinese nation.

3) The Shenzhen SEZ possesses all preconditions to become an inland "Hong Kong." Effective "creation of another Hong Kong," this grand affair, should be placed on the agenda of the day, and concrete measures should be implemented. The Shenzhen SEZ is the earliest large-scale SEZ set up by socialist China. After Bao'an County was abolished and the two places, Bao'an and Longgang, made into municipal districts, Shenzhen City now covers an area of 2,020 sq km, which is double the size of Hong Kong, while the urban area of Shenzhen is almost 100 sq km, which is smaller than the urban area of Hong Kong. However, the area for future expansion is much larger than that in Hong Kong, because Hong Kong is already filled up and has not much place to expand. On this point, Shenzhen's prospects and potentials are so much better than those of Hong Kong. In its harbor, airfield, highways, coastal facilities for imports and exports, as well as in energy sources, water supply, nonstaple food supply, Shenzhen is already of a considerable scale and strength, and with some effort it will be able to attain the level of Hong Kong. The population of Shenzhen (including temporary residents) is almost 3 million, and in respect of improving the quality of the population, including development of higher education and basic education, strengthening of various training activities, Shenzhen is indeed gradually raising the quality of its population and working hard to attain the level of Hong Kong. Through over ten years of construction, the Shenzhen SEZ has gained a certain economic and technological strength. Although there is a large disparity if we compare Shenzhen's economic development level with that of Hong Kong, Shenzhen's development is very rapid, and its economic returns are also quite good. Besides, it has the support of the whole country and is backed by the large hinterland with much room for maneuvering. In its more than years of reform and opening up, the SEZ has trained a large contingent of talents with strong party spirit, good workstyle, and capable of working for the country's modernization. In initiating ahead of others the system of socialist market economy and in opening up the international market and dealing with international capital, Shenzhen has made substantial progress. The SEZ has all along been at the highest level in China's efforts to open up to the outside world, and has played the role of vanguard in opening up and also as testing ground for reform measures. It had served as hub and base for diffusing beneficial influences, domestically and abroad. All this shows that the Shenzhen SEZ has the favorable preconditions to

develop into an inland "Hong Kong," and even could possibly become the one and only "Hong Kong" of China's hinterland. To advance to a new and higher stage of accomplishment on the foundation of affirmed successes and past experiences, the Shenzhen SEZ must take as its objective "creating another Hong Kong" and building up a metropolis of international character and an international economic center, and in this way "determine position" for the Shenzhen SEZ, and this should also be placed on the agenda of the day. Expending effort to effectively and ahead of others "create another Hong Kong," this grand affair, using "creation of another Hong Kong" in planning the future development of the Shenzhen SEZ, setting a higher target and higher criteria will be beneficial to have the Shenzhen SEZ advance to an even higher bracket and level, as it will also be beneficial for China's modernization projects. We must not denigrate "creation of another Hong Kong", must not lower our demands, and must even less regard "creation of another Hong Kong" as making the SEZ go capitalist, and we must furthermore not shrink from bringing up this question. If the Shenzhen SEZ tries, ahead of everyone else, to "create another Hong Kong," it means it will work hard to create environment and preconditions similar to Hong Kong as such are conducive to the development of the market economy. This entails, on the one hand, constructing installations at internationally recognized first-class standards, such as an airport, harbor facilities, a rapid urban transport system, a communications network, and electricity supply, water supply, and drainage and sewage systems. It would also entail changing the SEZ into a free investment zone, with freedom of access and egress of capital, people, and materials, into a free trading zone, and into a free economic zone. For this reason, the increase and creation of superiorities would also comprise increased creation of new policy-wise superiority, effective maintaining the SEZ as "special" and also continuously truly "special" under the new historical circumstances. General Secretary Jiang Zemin clearly and definitely pointed out that the SEZ will still have to be "special," and he also emphasized that the development of the SEZ's will be injected into the entire process of socialist modernization. By its efforts to "create another Hong Kong," the Shenzhen SEZ will show the way of development and exploration for all other SEZs in China as to how to continue "special," and to continue "more special" for a long time to come. It is critical for Shenzhen's effort to "create another Hong Kong" ahead of everyone else that it implement concrete measures in the following areas: in guiding ideology, in tactical planning, in the buildup of an investment climate and of an environment and conditions conducive to participation in the international competition, in the readjustment of its industrial structure, in the training of technical and managerial personnel, for greater attractiveness to foreign interests and greater domestic cooperation, also toward the development of a foreign trade-oriented economy, in the establishment of an economic organization of international



character and establishment and development of multinational corporations, in building up an information industry dealing with international economics, trade, finance, and tourism, and in the development of international shipping and cooperation in international labor services. In all these areas, earnest, down-to-earth, and continuous effort will attain new achievements and new progress, causing the SEZ's to gradually assume Chinese characteristics, a Chinese style, and a Chinese manner of operation, and allowing the SEZ's to catch up with and surpass the level of Hong Kong in material as well as in spiritual respects.

### **Shenzhen Economic Bureau Outlines Industrial Development**

94CE0682A Shenzhen SHENZHEN TEQU BAO  
in Chinese 20 Jul 94 p 10

[Article by Ye Lianjie (0673 6647 2212), Ceng Xianfa (2582 2009 4099), and Wang Jianyu (3769 1696 1342), affiliated with the Shenzhen Economic Development Bureau: "Thoughts on Shenzhen's Industrial Development"]

[Text] Since the Shenzhen SEZ was set up, 14 years of development have brought great successes in industry, just as in other fields of development. Industry has become the pillar of Shenzhen's national economy, with Shenzhen industry also having established a definite national standing, an externally-oriented industrial order having been basically formed, and a high-tech industrial community now evolving. It could be said that 14 years of development have gradually formed Shenzhen industry into an externally-oriented structure with more complete categories, more advanced technology, an equal emphasis on large, midsize, and small, and the coexistence of diversified economic components. This rapid industrial development has laid a solid material foundation for our SEZ economy, providing rich and diverse products for export. Meanwhile, it has also correspondingly spurred the all-out growth throughout Shenzhen of banking, communications and transportation, building construction, posts and telecommunications, and service trades.

But as to current levels and capabilities, we still have a sharp gap with developed regions, particularly the "four little dragons" of Asia. Our industrial development is subject mainly to the following problems:

**Our industrial investment structure is irrational.** 1) Government investment in industry is irrational. While our industrial added value in 1993 made up 40.8 percent of the national economy throughout Shenzhen, the government invested only 310 million yuan in industry from 1980 to 1992, meaning that government investment in support of basic industry is too small. 2) Our foreign investment structure is irrational. While over 60 percent of our industrial foreign investment comes from Hong Kong, most of the shift from Hong Kong is traditional

manufacturing, with little import of funds and technology by international transnational corporations, and that imported (by companies, such as Reebok, Olympus, and Dupont) being merely for commissioned or subcontracted assembly. 3) Our enterprise fund use is also irrational. Since 1992, many industrial enterprises have been spending their additional working capital on running tertiary industries, even engaging in real estate development in other parts of China. In light of our national fund shortage, the payback on these funds will be very difficult, with the rate of return also very low. And the fund shortage will severely impact our industrial output.

**Our industry's industrial structure is irrational.** This can be seen mainly in four areas: 1) Large key enterprises symbolized by hot-selling products are too few, making up less than 0.5 percent of all of our industrial enterprises. 2) Investment- and basic-type products are too few, having a large gap with international-market products in technology, quality, and price, and not being competitive enough. 3) Our high-tech enterprises and products are too few, still not having the dominant impact. 4) Our product R&D capability is quite weak.

**Our industrial investment climate and operating environment are poor.** This can be seen mainly in that: 1) Our industrial-use land prices are too high, with our real estate investment making up over 50 percent of our whole investment. 2) We have a large working-capital shortage. To achieve our 1994 GVIO goal of 60 billion yuan, we will need over 25 percent more working capital than in 1993, but will actually be able to meet only 10 percent of this need. 3) Significant new system reforms in areas, such as taxes and foreign exchange, are in an abrasive stage, having a definite impact on enterprises. 4) Our operating costs are ever-growing, which can be seen mainly in that raw materials are generally up 30-40 percent in price; worker wages and fringe benefits are rising steadily; all types of charges and apportionments still exist under all sorts of pretexts. 5) The unchecked striving for tertiary industry development is forming a sharp shock wave on industry, with many industrial enterprises shifting their energies mainly to the operation of tertiary industries, turning industrial factories into tertiary industry sites, which is having a certain impact on the industrial standing of our industrial base.

**Our industrial macroeconomic regulation and control is weak.** This can be seen in that: 1) Our economic, legal, and administrative means of macroeconomic regulation and control are hard to consolidate and coordinate, with good and authoritative matters under management dispute, while no one wants to deal with difficulties and troublesome matters. 2) Our management system is unsound, with managers separate from directors, leaving the statements of responsible industrial departments unheeded, thus keeping the internal management problems of many enterprises from being solved promptly. 3) Our planning formulation and implementation are not closely coordinated, lacking a powerful oversight sector.

For instance, enterprise incremental adjustments are unclear, with industrial structural-adjustment difficulties piling up. To speed up Shenzhen's industrial development, we need to take the following countermeasures:

1. *We need to accelerate our industry's structural adjustment, to raise our overall economic efficiency.* We need to vigorously develop high-tech enterprises. The "10-Year Program and Eighth Five-Year Plan for Shenzhen High-Tech Industry" is in effect, proposing to achieve a high-tech industry output value of 33 billion yuan by the year 2000. We need to move out some enterprises. As to existing SEZ "three imports and one compensation" and other low-grade enterprises that use a lot of energy, cause serious pollution, are low in grade, and are inefficient, we need to basically move them out in a planned and step-by-step way in 2-3 years. Some of these that are better and higher-tech should be moved to the two new zones of Baoan and Longgang, to be provided with preferential policies. We also need to expand our technological upgrading of traditional industry.

2. *We need to do a good job of adjusting our industrial structure.* In line with the SEZ development goal of building Shenzhen into a multifunctional, international city and the trend of integrating the Shenzhen-Hong Kong economies, our overall industrial structure needs to be correspondingly adjusted. Our general construct remains the three-point, one-line joint form of "inland—Shenzhen—outside" and the store-in-front, plant-in-back structural framework of "stores" within the SEZ and "plants" in the two zones of Baoan and Longgang. The "stores" within the SEZ should play mainly the role of industrial information, product display and sale, product development, and intermediate testing, as well as a window role for some high-tech enterprises; the two zones of Baoan and Longgang should plan several industrial zones with differing industrial categories. For instance, the eastern section with a 5-million-ton oil refinery could consider setting up a manufacturing zone for petrochemical products; the saltwater port along the Longgang coastline could consider an industrial zone with more related port facilities and manufactured goods convenient for direct export overseas. The western section near the airport could set up certain airport-related industries; the automobile city could head up coordinated industries specializing in car parts. The new industrial-zone plans need to emphasize less standard and more specialized factories; less large and complete enterprises, and more specialized cooperative ones; enterprises that are sources of pollution and have materials that are combustible and explosive should firmly observe the principles of designated limits, concentrated handling, and centralized management.

3. *We need to focus on building a group of large projects, to enhance our industrial-development stamina.* On the heels of our 1993 large-scale adjustment and screening, we are focusing our priorities up to the year 2000 on building 75 large industrial projects with an investment of over 50 million yuan each or an output value of more

than 200 million yuan each, for an overall investment of 52.3 billion yuan. Once built, these projects can add 64.2 billion yuan a year to our output value. By the year 2000, Shenzhen's GVIO will top 110 billion yuan, by which time our city will have added new production bases for goods, such as electronic components and devices, computerized switchboards, petrochemicals, light aircraft, cars, and air conditioners, giving our industrial development a strong momentum.

4. *We need to reinforce our concepts and means of invigorating industry with S&T.* Our priorities are to support large enterprises in building technology centers and a group of "product research" projects, planning and building as soon as possible a "productive-forces promotion center." As to imports of advanced technology and equipment, in addition to conducting efficiency assessments, we need to emphasize evaluation of assimilation and absorption capability and self-development ability, as well as organizing same-line experts through horizontal associations to conduct appraisal through comparison. The government needs to invest more in and better compute interest for S&T and technological-upgrading funds, instituting a financial auditing system for special technological-upgrading and S&T-development funds.

5. *We need to take effective steps to further accelerate our development of an externally-oriented economy.* The development of an externally-oriented economy was our aim and goal in setting up the SEZ. We need to pay particular attention from now on to the following two points: 1. We need to emphasize the introduction of transnational corporations, taking a stand to "change from building nests to attract birds to attracting birds to build nests," allowing transnational corporations to take a direct part in our development of industrial zones, and building various specialized factories in line with their projects. 2. We need to continue to take joint multi-channel, multi-form, and multi-department steps to sponsor domestic and overseas sales exhibits, further opening up our domestic market, and giving priority to Europe and the U.S. For large and midsize enterprises whose products have export markets and which have close ties to domestic enterprises that produce similar products, we should grant import-export rights, to broaden their operating scope. For large export-earners and taxpayers and "three-excellence" enterprises, we should continue to grant preferential, slanted policies, urging and spurring them to produce more, export more, and contribute more to the SEZ.

### Labor

#### Imbalance Between Labor Supply, Demand

94CE0601A Beijing ZHONGGUO GUOQING GUOLI [CHINA NATIONAL CONDITIONS AND POWER MONTHLY] in Chinese No 5, 28 May 94 p 31

[Article by Zhao Yuxia (6392 1342 7209), Political Science Faculty, Shanxi University: "Imbalance in China's Labor Supply and Demand"]

[Text] How to establish and develop a socialist labor market is a difficult issue of economic system reform today. Labor as a commercial commodity is clearly different from other commercial products: labor as a commodity has concrete utility—it can shape or create values but it is also capable of human conscious initiatives—both elements coexist in labor as a person, and both are subjected to control of his/her mind and will. Therefore, the rational development and scientific deployment of labor as an economic resource are sensitive economic and social issues. In this context, it is especially difficult to get a handle on the existing labor supply and demand contradiction in China today.

China's labor supply and demand situation shows sharply the twin problems of quantitative and of structural imbalances. From the quantitative standpoint, China's labor supply greatly exceeds demand, and exerts great pressure on employment. From the structural standpoint, there are three types of imbalances. First, the imbalance in distribution of labor. Eighty percent of China's population are located in the coastal and central areas where economic developments have been relatively rapid, while some 20 percent are scattered throughout the western region. Second, the imbalance in employment of labor. The numbers of people employed in China's primary, secondary and tertiary industries accounted for 60 percent, 21.4 percent and 18.6 percent respectively of the total labor force. Third, the imbalance in quality of labor. It is not that the supply of labor exceeds demand in every sector of the economy, but it is the case of the excess supply of low quality labor, or inadequate supply of high quality labor, relative to demand. These then represent the points of departure for any discussion on establishing the foundation for a labor market in the present stage of economic development.

This current state of affairs has influenced people's thinking in several respects. Today, the people's general state of mind is that given the necessity and inevitability of establishing a labor market, they hope that through a labor market, workers and employing units would be able to select each other, with the employers actively seeking to employ the workers to meet production and operational needs, thereby rapidly raising the economic benefits of employment which in turn would enable the workers to individually select their occupations or work units based on their personal desires, preferences and special skills, thereby fully developing their individual talents and abilities; but people also worry that when unemployment occurs, workers would have difficulties finding new jobs and their basic livelihood would not be assured. For these reasons, many people are taking a wait-and-see attitude, being unsure of how to proceed. This is one of the reasons for the slow start and sluggish growth of the labor market. How can people, faced with the difficult choices created by the transition from a planned economy to a market economy, be persuaded to go forward and resolve the sharp contradiction in the relationship between labor supply and demand, which in turn will lead to orderly channelling of labor into the

various sectors of production in society is a key issue. In my view, we must grasp this and other key issues and push ahead to solve them as an integral whole.

In terms of the labor supply and demand contradiction, it is obvious that "demand" is the driving force. Yet, "demand" is not created by people's subjective will or desire, for an important factor which affects the system of labor supply and demand is the objective demand of, and the extent of development required by socialist production. If the quality of labor is not suitable to the needs of socialist production, it will be difficult for the labor force made up of different capabilities to make the transition to some other new occupations. The planned economic system we have lived under for a long period of time has stratified the status, occupations and work stations of workers; their capabilities were narrowly defined and the social environment for [occupational] changes limited; as a result, workers have had difficulties changing in a timely way to keep pace with changes in the technical standards of production and the new divisions of labor in society.

China's large population exerts great pressure on employment, and the only way to solve this problem is to introduce a system of competition and to accelerate the growth and development of a labor market. It should be noted that the large numbers of people unemployed or waiting to be employed present both a difficult problem and an impetus for change. It forces the labor force in society from competing in numerical terms to competing in terms of improving or raising quality; that is, under the double pressures of outside competition [to obtain employment] and the inside competition once employed to survive, workers cannot help but push ahead to acquire scientific knowledge and multiple job skills, and to raise their personal quality, so that in the end workers can truly exercise their rights to choose in the process of mutual selection between the employer and the employed.

Based on analysis of the situation of labor supply and demand in China, it is possible to predict that within a foreseeable period, China's labor supply and demand relationships will undergo changes as follow:

First, the continued growth of tertiary industry occupations and newly developed, high-tech intensive enterprises will place new demands on labor to raise its quality and acquire multiple work skills. With agriculture and traditional industries releasing large numbers of workers as a result of technical changes and system reform, the labor market will be driven by competition to change from the former unitary model to a multiple-outlets model and, after a period of difficult transition, the labor market will develop on all fronts and, through adjustments in the employment structure, bring about the needed adjustments in the enterprise structure.

Second, in terms of the labor supply and demand contradiction, the pressure on employment will slowly ease as labor quality is gradually raised. In a market economy,



large numbers of capable workers with the necessary knowledge, business experience and the willingness and ability to take risks will mature and come to the fore; among the workers for hire, they represent the top picks, for they are the driving force to launch new businesses in a market of buyers. From clerks and "girls Friday" to entrepreneurs and bosses, this cycle of beneficial development and coordination will emerge out of the labor supply and demand contradiction in the market today.

Third, a labor market will gradually mature and, as it is perfected, gradually shrink and eliminate the differentiations of individual status, occupations and regions which now exist in the labor force at this stage of development. A large unified and mobile labor market which is full of vitality can help develop and nurture countless numbers of specialized, capable and talented workers and turn a high-quality work force into a superior resource which can be scientifically deployed in the modernization production drive. In this process, the quantitative and structural imbalances in China's supply and demand of labor will gradually be corrected satisfactorily.

#### **Labor System Reform Aims at Promoting Modern Labor Markets**

94CE0661A Beijing ZHONGGUO WUZI BAO  
in Chinese 13 Jul 94 p 1

[Article by Mu Chuan (4476 1557): "Developing Modern Labor Markets"—China's Labor System Begins a New Order of All-Out Reform"]

[Text] A concerned figure from the Ministry of Labor recently declared that to adapt to the new needs of establishing a socialist market economy, our labor system will undergo sharp reform. Focused on the key task of cultivating and developing labor markets, labor reform will go all out to gradually establish a "new labor system" in line with market-economy needs.

It is understood that the "Ministry of Labor's Overall Labor-Reform Plan for the Period of Building a Socialist Market Economy," which was studied and drawn up by the Ministry of Labor, has started a new order of all-out reform for China's labor system. An authoritative Labor Ministry figure discloses that "the new labor system," in contrast to past "three-system reform" (labor, personnel, and wages), makes significant breakthrough advances, with his clearly set forth new version that "market forces will play the basic role in the disposition of labor-resource development and utilization" being of crucial immediate significance to the all-out intensification of all reforms, such as labor, training, wages, and social insurance.

We will cultivate and develop modern labor markets with fair competition, orderly operations, forceful regulation and control, and complete service. This is the overall goal model set forth by the Ministry of labor for developing "modern labor markets."

**Fair competition.** We are breaking with the employment policy of "State guarantee and monopoly," so that workers can choose their own jobs with independent mobility and enterprises can choose employees on their own, to establish labor relations between labor supply and demand through fair competition and two-way choice. This will mean further breaking down all labor status lines between staffmembers and workers, differing ownership systems, urban and rural areas, and regions.

**Orderly operations.** We are drawing up a complete set of legislation for labor markets, so that labor-relations establishment, adjustment, and termination are all conducted in the legal form of labor contracts.

**Forceful regulation and control.** We are drawing up labor-resource development and utilization plans, ensuring the good operation of labor markets through labor oversight, and using economic, legislative, and the necessary administrative means to regulate and control the overall supply and demand volume and structure of our workforce.

**Complete service.** We are establishing complete labor-market service and security systems. This includes mainly systems such as social insurance, employment service, and labor-legislation advisory services, to provide service and social security to all types of enterprises as well as our whole workforce.

While labor markets mean that enterprises ought to have the right to set wages on their own, the current method employed mostly by Chinese enterprises is the linking of wages to efficiency, with most state enterprises not yet having the right to set wages on their own. So to adapt to reform needs, enterprise wage reform will be further intensified.

**Our future enterprise wage-distribution system will establish a new model of decisionmaking by market forces, distribution by enterprises on their own, and oversight, regulation, and control by government.** Fair competition between labor supply and demand will form a balanced wage rate; wage growth will be grounded in factors such as labor productivity growth, labor supply and demand change, and the employee cost-of-living price index, set through collective consultation and negotiation by industries or enterprises; enterprises will be regarded as independent corporations, enjoying complete distribution autonomy; government will employ mainly legal and economic means (administrative means when necessary) to control overall wages, reconcile income-distribution relations, and preserve social justice.

A concerned Labor Ministry official notes that: Enterprise wage reform is sharply dependent on other reforms, particularly enterprise reform, so must proceed in a planned and step-by-step way in line with enterprise reform progress and labor market development. The state is now organizing 100 large- and medium-sized enterprises in which to carry out wage reform, with the key to enterprises setting wages on their own being the

rate of conversion of enterprise operating forces, enabling those that have converted to proceed, while those that have not will continue to practice the interim method of linking wages to efficiency.

It is understood that labor reform will proceed in two steps: 1) By the later part of the Eighth Five-Year Plan, China will have begun to establish a labor market order in which, except for a few enterprises needing direct state control and State monopoly of personnel, all of the rest will practice independent employment and job choice. 2) By the time of the Ninth Five-Year Plan, we will have essentially abolished the state guarantee and monopoly system, eliminating the status lines among employees, to have basically evolved a modern labor market in embryonic form.

Our social insurance system is the weakest link in our labor reform. According to the Labor Ministry analysis, our past lag in social insurance reform has become a "bottleneck" limiting other reform. As social insurance reform ought to have preceded enterprise wage reform, our schedule is to intensify reform in this area. Our priorities are to complete our old-age and unemployment insurance systems, strengthening their social service functions, to lighten enterprise burdens, spur enterprises to organize structural adjustment, and improve enterprise economic efficiency and competitiveness.

Our old-age insurance needs continued expansion of coverage, to include all employees in all types of enterprises in old-age insurance. Meanwhile, as conditions gradually improve for overall planning, we will strive by the end of 1994 to put state enterprises in most provinces and autonomous regions throughout China under provincial overall planning and urban collective enterprises under municipal and county overall planning, with those qualified setting up uniform old-age insurance systems for all types of urban employees and instituting uniform old-age insurance premiums, to pave the way for integrated management of urban old-age insurance; we will reform our method of calculating and paying basic old-age pensions; we will further consolidate our system of individual enterprise employees paying part of their basic old-age insurance premiums; we will establish a retirement pay system; we will push enterprises to supplement their old-age insurance and socialized service systems.

Our unemployment insurance reform is further expanding coverage from the current 70 million to 90 million; we are improving our basic management methods and oversight and inspection system, setting rational fund spending items; we are actively exploring ways to provide unemployment insurance in our non-state economy, gradually setting up a uniform enterprise insurance system. Our unemployment relief payments need to be suitably higher than public welfare payments, with payment terms linked to individual work life. The priority of our health insurance system is to establish a health insurance fund, pushing forward with the experimental tasks of overall public planning of medical

expenses for major illness and individual medical accounts, with experimental cities and counties to reach 800 by the end of 1995. Meanwhile, we are pursuing overall public planning of medical expenses for retirees.

As labor-system reform is inseparable from the building of legal institutions, our new round of reform will put our labor legal establishment in a more prominent position. It is understood that we are going to draw up new legislation, annulling or amending outdated regulations, to establish a complete labor-law system. The full use of legal means to adjust labor relations will legalize them.

It is understood that legislation involving job training, labor relations, labor remuneration, and social insurance, such as the "Jobs Promotion Law," the "Disabled Employment Security Law," the "Labor Contract Law," the "Labor Procedural Law," the "Wage Law," and the "Social Insurance Law," are under rush formulation and will go into effect successively, laying the legal grounds for macroeconomic regulation and control in the field of labor.

Our labor reform is now entering a stage of overall progress and priority breakthroughs. Labor Ministry officials explain that so-called overall progress means that all reforms involving our labor system will go all out, striving for overall coordinated developments instead of individual breakthroughs; priority breakthroughs involve two implications: 1) certain regions will make all-dimensional progress, taking the lead in setting up a new labor system; 2) we will seize on the major issues affecting overall reform, intensifying reform dynamics to promote all other reforms. So the Ministry of Labor is promoting a new plan for "regional comprehensive related reform," which will expand the past "three-system reform" (labor, personnel, wages) within enterprises from enterprises to a region, as well as advancing to the point where these three system reforms provide service guarantees for other reforms. Of course, this does not mean that all reforms will have to be implemented simultaneously, but rather that an order of precedence will be allowed to achieve objectives in stages, but with coordinated consistency. The Ministry of Labor has now selected the two provinces of Shandong and Guangdong, as well as 10 cities, such as Qingdao, Shenzhen, Chengdu, Anyang, and Huangshi, for all-provincial and all-city regional comprehensive related labor-system reform experiments.

Along with expanding our labor-system reform dynamics, a concerned Labor Ministry official points out that particular attention will be paid to two points: 1) All areas need to pay more attention to conscientiously protecting employee interests. While reform is aimed generally at expanding employee benefits, certain elderly, weak, ill, and disabled employees may not be able to adapt to market demands, which will leave some of them cut out. So we need to "dig the channels first before turning on the water," doing all possible to find ways out for employees going off duty, by providing certain

"policy preferences" for elderly, weak, ill, and disabled employees, with it being best that they are absorbed internally instead of leaving their enterprises. 2) Enterprise wage-distribution reform needs premised on conversion of enterprise operating forces. Many enterprises still lack self-restraint forces, with unchecked deregulation easily creating consumption-fund expansion, which has had consequences. Reform in this area needs positive and safe experimentation, steady summation of experience, creation of terms, and steady dissemination, instead of undue haste.

### Agriculture

#### Anhui Experience With Grain Deregulation

94CE0613A Beijing JINGJI CANKAO BAO in Chinese  
29 Jun 94 p 1

[Article by Chen Xianfa (7115 0341 4099): "'Sales Difficulty' Eased, Grain Farmers Increase Yield, Mainstream Steadfastly Holds Its Ground"]

[Text] It has been a full year since grain prices and operations of Anhui, the major grain producing province, were deregulated and various new improvements have been produced because of this deregulation "elixir."

Grain prices were deregulated and Anhui's grain circulation area was rapidly "enlivened." Many channels, including state-run, collective, and individual, participate in full steam competition. In the entire province, multi-channel and individual grain and oil purchasing network points have reached as many as 23,000, six times higher than the state-run grain department network points, and farmers like Fengyang County "grain king" Chen Xinghan, handling more than 10 million kilograms annually, have appeared.

The intense competition has greatly eased the Anhui grain region's many years of chronic "sales difficulties" and caused the low production area grain prices to rise reasonably. In a year of deregulation, Anhui grain farmers have profited by nearly 1.4 billion yuan from rising grain prices. At the same time, there is "stability" in the new form of "lively" competition: State grain enterprise purchases amounted to 7.9 billion kilograms, exceeding purchases in a normal year before deregulation and making up more than 80 percent of the total commercial grain in society and its mainstream position of "holding up the sky" has not been shaken and it has maintained its strong capability to exert macro-economic control over the market and stabilize the market.

At the end of last year, the state mainstream sell off of 330 million kilograms of market adjustment grain and 500 million kilograms of variety adjustment grain at a loss caused skyrocketing grain prices throughout the province to return to reasonable levels in a week and used special preferential prices 20 fen per kilogram lower

than the purchasing price in the sale of 50 million kilograms of grain directed toward disaster areas. So, the greatest characteristic of the mainstream in the new form is emphasizing both economic benefits and social benefits, exhibiting the unique characteristic of the socialist market economy.

In one year of deregulation, Anhui state grain enterprises eliminated the need for state subsidized financial support and interest on old accounts and earned a net profit of 130 million yuan. This is the first time in "Anhui grain" history to break a natural disaster.

The new system is an effective source. In a year of deregulation, the vigor of grain enterprises in various places in Anhui has multiplied. The "Mengcheng Model" of "substituting state grain for the people's stores" not only greatly reduces losses, the substitute grain also further increases the value of processed finished foods or supplies grain farmers and the grain farmers' labor is extricated in the conversion from tedious grain storage to processing. Presently Fuyang region alone has reached 260 million kilograms by this pattern of grain storage substitution. If state mainstream empty granaries throughout the province did business in this way, annual increased benefits could exceed approximately 1 billion yuan. The grain department of She County, Anhui's largest sales region, issued urban and rural residents "grain supply credit cards." Premised on guaranteed amounts and guaranteed quality and a preferential price 4 percent better than the market price, they created the "She County Model" easily oriented to long-term business and avoiding blindness and capable of stabilizing the people's mentality of being purely a sales region. And in the "Ningguo Model" the farmers can exchange products specially produced on auxiliary agricultural land for unprocessed grain in the state grain shop, broadening the area of the state mainstream business and avoiding the tendency in sales regions and mountainous regions to destroy forests, orchards, and tea plantations and reclaim grain. Because of numerous new ways of business and enlivening of channels, Anhui state grain enterprise sales skyrocketed in the first year of deregulation, increasing by more than 1 billion kilograms.

While converting operating mechanisms, Anhui state grain enterprises also put forth a great effort to start "multilateral" businesses. Business areas included everything from machinery and foods to tourism and metallurgy. In the first year of deregulation, profits of diverse businesses soared by 30 percent or more.

Grain prices since deregulation are the focal point of the entire grain market. Once Anhui's state grain department stepped into the market, it concentrated on how to reasonably resolve grain prices, taking the "lead" in firming up the grain market.

The establishment of reasonable grain prices must be based on arousing grain farmers' enthusiasm for production by protecting grain farmers' profits. The Anhui state



grain department with an energetic grass-roots investigation and research style, carefully researched grain production costs and the comparative benefits of planting grain and planting cash crops and breeding, the rising cost of living for grain farmers, and the grain price differentials of different types of production and sales regions as an important basis for formulating guiding purchasing prices. The state protected early long-grained nonglutinous rice price after deregulation is 21 yuan for 50 kilograms. The Anhui grain department by exhaustive investigation of numerous factors such as actual costs in their area, finally determined that after eliminating the added price outside the price, the general purchasing price would be 26 to 28 yuan for 50 kilograms. Because of a reasonable fixed price, the early long-grained nonglutinous rice harvest was extremely successful, giving impetus to the planting of that variety of rice in a second year.

The Anhui grain department also constantly adjusts the grain price at the proper time and the proper place based on the changes in the region and the market. In the first year after deregulation, various places in Anhui, especially in self-supporting or grain-lacking mountain regions, actually implemented a purchasing price on a par with the state protected price. With the exception of a comparatively small increase in the wheat price, the prices of other major grain prices increased by 30-50 percent, causing grain farmers to increase their grain receipts by 0.2-0.3 yuan per kilogram over the previous year, tasting the benefits of grain deregulation. At the end of last year, the grain price on the Anhui market shot up about 30 percent in one month. To more effectively curb the market price, the Anhui provincial state grain department in the face of the rather rapidly changing market adjusted the per kilogram price of number two rice to 1.5, 1.40, and 1.3 yuan on 16 November, 19 November, and 31 December, respectively. Because the price response was rapid, the market price for grain very quickly returned to normal levels.

### **Jilin Corn Export Measures Reported**

94CE0658C Changchun JILIN RIBAO in Chinese  
14 Jul 94, p 2

[Article: "Jilin Provincial Export Corn Supervision and Inspection Control Measures"]

[Text] Jilin Provincial People's Government Decree Number 18

The Jilin Provincial Export Corn Supervision and Inspection Control Measures were passed by the 17th Standing Committee of the provincial government on 24 June 1994 and are hereby promulgated.

[Signed] Provincial Governor Gao

[Dated] Yan 29 June 1994

**Article 1** To ensure the quality of provincial export corn and increase the competitiveness of export corn on the

international market, in accordance with relevant national and provincial laws and regulations combined with the actual situation in Jilin Province, these measures are formulated.

**Article 2** These measures are applicable to export corn inspection and supervision control throughout the province.

**Article 3** The People's Republic of China Jilin Import and Export Commodity Inspection Bureau (abbreviated below as Jilin Commodity Inspection Bureau) is in charge of export corn inspection and supervision control throughout the province.

The Jilin Commodity Inspection Bureau and its subordinate branch organizations (below called the Jilin Commodity Inspection Organization) are responsible for administering export corn inspection and supervision in the area under their jurisdiction.

**Article 4** Export corn must be inspected by the Jilin Commodity Inspection Organization of the producing area or the delivery area. Corn that has not been inspected in the producing area or delivery area or corn that does not pass inspection is not permitted to be used for export.

**Article 5** Export corn business units must report for inspection to a production area or delivery area Jilin Commodity Inspection Organization ten days before shipping the export corn.

For domestic sale corn converted to export, the business unit must report to the corn quality tracking service organization of the Jilin Commodity Inspection Organization stationed at the port for inspection.

**Article 6** When the reporting person reports to the Jilin Commodity Inspection Organization for inspection, he must supply such things as supply contracts, letters of credit, and factory (warehouse) inspection slips and such things as facsimiles of export commodity supervision and inspection requests.

If the person reporting for inspection has a special request regarding the content of the inspection, he should indicate it on the inspection request. If additional quality checks are required, he should notify the Jilin Commodity Inspection Organization in a timely manner and conduct such procedures as supplementary inspection and reinspection.

**Article 7** The Jilin Commodity Inspection Organization should dispatch samplers in a timely manner for export corn that has been reported for inspection and should complete the inspection in the specified time. [Export corn] that has passed inspection will be issued an "export commodity inspection change of certification certificate" or an "export commodity inspection certificate." [Export corn] that is unqualified will be issued an "unqualified notice."

**Article 8** When the "export commodity inspection change of certification certificate" or the "export commodity inspection certificate" issued by the Jilin Commodity Inspection Organization has expired, the

reporting person must once again report to the Jilin Commodity Inspection Organization for inspection.

**Article 9** The Jilin Commodity Inspection Organization will oversee and control the inspection of export corn producing and processing enterprises and business and shipping units throughout the province. The scope of their overseeing and control will include:

- (1) Such things as export corn checking procedures, inspection control, checking and acceptance systems, and inspection standards and methods.
- (2) Such sectors as export corn storage, shipping, loading and unloading, and preservation.
- (3) Supervise and check the inspections made by the inspectors.

**Article 10** The responsibilities of the export corn quality tracking service organization established by the Jilin Commodity Inspection Organization in the port are:

- (1) To handle supplementary certificates and inspections for Jilin export corn that has lost its commercial inspection certificate.
- (2) Give feedback in a timely manner to information from the port or from overseas regarding the quality of Jilin export corn.
- (3) Oversee and control the inspection of export corn from Jilin business units stationed in the port.

**Article 11** The Jilin Commodity Inspection Organization as specified in Article 40 of the Jilin Provincial Import and Export Commodity Supervision and Inspection Control Regulations, must fine all corn that has not been inspected by the Jilin Commodity Inspection Organization or did not pass inspection that is directly sent to the port for export or [corn] that is sent to the port for export as domestic sales and has not undergone inspection of the Jilin Commodity Inspection Bureau export corn quality tracking service organization stationed in the port.

**Article 12** Jilin Commodity Inspection Organization personnel that abuse their authority in inspecting export corn, act fraudulently for their own benefit, falsify inspection results, or neglect their duties or delay inspection certification will be fined as stipulated in Article 42 of the Jilin Provincial Import and Export Commodity Supervision and Inspection Control Regulations.

**Article 13** Inspection of Jilin Province's other grain and feed export commodities will be implemented in accordance with these measures.

**Article 14** These measures will be implemented from the date that they are promulgated.

#### **Jiangsu's Farm Supply Problems**

94CE0606C Nanjing XINHUA RIBAO in Chinese  
1 Jul 94 p 2

[Interview with government officials of relevant departments on farm supplies issues: "Adopt Practical Measures To Make a Success of Farm Supply"]

[Text] Now is the critical moment for agricultural production. In order to further implement the guidelines of the Rural Work Conference of the Provincial Party Committee and Government, do a good job in farm supplies production and supply, and ensure that the needs of agricultural production are met, responsible persons of the office of the provincial government, the provincial planning and economic commission, the provincial supply and marketing cooperative, the chemical industry department, the provincial price bureau, on 27 June of 1994, gave the following answers when questioned on the supply of farm supplies, which is an issue of most concern to peasants.

**Question:** At the beginning of this year, the provincial party committee and government suggested that the issue of farm supplies be considered as the "priority of all priorities" in rural work. May I ask why the situation of farm supplies is so tense this year?

**Answer:** The farm supplies market, especially the situation of chemical fertilizer, is not optimistic this year. Goods are in short supply and prices are rising. One of the reasons is that prices have been gradually decontrolled. The method of linking state price to chemical fertilizer supply has been changed this year. The factory price of domestic chemical fertilizer has gone up, and so has the international market price. Plus with the merging of foreign exchange systems, the cost of chemical fertilizer has increased fairly substantially. Secondly, chemical fertilizer import has been delayed. Due to a sluggish market for chemical fertilizer last year, arrangements for imports and assignments for import plans have been made rather late this year, causing a gap between supply and demand. Thirdly, it has been very difficult to procure chemical fertilizer from other provinces. At the end of last year, after a brisk sale of chemical fertilizer, inventory declined throughout the nation. At the beginning of this year, the production of chemical fertilizer was insufficient temporarily. Since resources are limited, it is difficult to meet the demand in a timely manner.

**Question:** What major policy measures has the provincial government adopted to facilitate the supply work of farm supplies?

**Answer:** In light of the changing situation of farm supplies distribution system and in order to guarantee the supply of farm supplies, Jiangsu Provincial government has adopted mainly the following policy measures: 1) Strengthening organizational leadership. Farm supplies coordination leading groups have been formed at various provincial and local levels to study and solve problems in a timely manner. 2) Assigning tasks. Two responsibility systems that combine central and local departments have been implemented. Vertical and departmental responsibility systems have been established and supervision and inspection have been strengthened in the areas of production arrangements, supplier supervision and transfer, import and non-local purchase, lower-level supply, funding guarantee, market

management, and price control. 3) Implementing a slanting policy and preferential measures. Arrangements have been made for subsidiary farm supplies for disaster relief, the utilization of foreign exchange retention and quota, unified distribution of electricity for agriculture-oriented industry, and funding guarantee for production, marketing, and circulation. To help start the production of agriculture-oriented industry, the provincial government has invested 280 million yuan as start-up funds. Both provincial and local governments have given a certain amount of subsidy to suppress the price of farm supplies.

**Question:** In view of the shortage of farm supplies this year, what kind of work have supply and marketing cooperatives done? How is the supply situation?

**Answer:** In view of the grim situation of farm supplies market, farm supplies companies under supply and marketing cooperatives throughout Jiangsu Province have gone all out to vigorously organize imports and expand non-local purchases. At the beginning of 1994, when the chemical fertilizer policy was unclear, Jiangsu Province took the lead in organizing 220,000.00 tons of imports. As of today, 500,000.00 tons of chemical fertilizer imports have all arrived. Between January and May, the provincial farm supplies company alone managed to organize over 100,000.00 tons of above-plan, high-quality chemical fertilizer. Supply and marketing cooperatives of Jiangsu Province purchased over 400,000.00 tons of chemical fertilizer from non-local suppliers. In addition, supply and marketing cooperatives at all levels have done a great deal of work in connecting the production and marketing of local suppliers, strengthening the balance and management of suppliers, stabilizing the price of farm supplies, locating sources of reserve goods for disaster relief, and rendering quality supply service. These measures have played an important role in alleviating the shortage of farm supplies in Jiangsu Province.

In the first 5 months of 1994, industrial and commercial departments in Jiangsu Province supplied a total of 3 million tons of chemical fertilizer, 3.5 percent more than the corresponding period of 1993. There are plenty of suppliers for pesticide and plastic film, and the amount of supply is on the rise. The needs of agricultural production have been basically met.

**Question:** Now is the peak season for the demand of farm supplies. How much supply have the farm supplies departments organized for this? Can they meet the need of agricultural production? How is the situation of fertilizer supply for autumn sowing?

**Answer:** Currently Jiangsu Province has over 1.4 million tons of chemical fertilizer ready for distribution. During the summer sowing season, the provincial farm supplies company can supply and transfer to lower levels over 400,000.00 tons of high-quality fertilizer. The current situation of industrial production is fairly good. According to preliminary estimates, during the summer period, Jiangsu Province has the capacity to supply 2.9

million tons of chemical fertilizer, basically the same as 1993. Judged from the situation as a whole, agricultural production needs will be met. It is predicted that the supply situation will be better than the spring plowing. However, supply will be fairly tight in some areas. Pesticide and plastic film are in abundant supply. Their demand is guaranteed. Thanks to the high level of attention placed by party committees and governments at all levels and the continuous efforts of farm supplies departments at all levels, analyses and forecasts show that the supply and demand conflict of farm supplies market will be gradually alleviated, that prices will fall slightly, that fertilizer needed for autumn sowing throughout the province can be basically guaranteed, and that the sources of urea, which is a popular item among peasants, will increase in the second half of 1994.

**Question:** Has Jiangsu Province prepared disaster relief farm supplies? Are they ready to be disbursed? Can they be disbursed in a timely manner?

**Answer:** To prevent natural disasters, both provincial and municipal levels have made arrangements for disaster relief farm supplies. The provincial level has earmarked 100,000.00 tons of chemical fertilizer and 5,000.00 tons of pesticide for disaster relief, 30,000.00 tons of diesel for combating disasters and floods, and other farm machinery and drainage and irrigation materials for preventing flood and drought, including 14,000.00 diesel engines and 10,000.00 water pumps. These disaster relief farm supplies are ready to be disbursed at any moment.

**Question:** Some peasants do not know how to protect themselves when it comes to fake farm supplies. What do they need to look out for when purchasing? Can they get compensation for their losses?

**Answer:** Since the number of channels for distributing farm supplies has increased, violations involving distribution of fake and inferior farm supplies and commodities have indeed occurred. While industrial and commercial management departments are strengthening market order and control, peasants should make greater efforts to protect themselves. Farm supplies departments under supply and marketing cooperatives are the main channel for distributing farm supplies. They abide by the shipping principle of "inspection first, shipping later" and strictly forbid carrying commodities which lack any of the "three permits," are imitations or fake or inferior products. They also implement the quality guarantee system under which all defective farm supplies and commodities are guaranteed for exchange and refund and all peasants' losses are fully compensated. Because of this, we hope that when purchasing farm supplies, peasants go to reliable units and purchasing stations such as supply and marketing cooperatives.

**Question:** The broad masses of peasants are very concerned about the issue of policy change regarding farm-use diesel. May I ask what are the changes and arrangements for the supply of farm-use diesel?



Answer: On 1 May of 1994, the state carried out substantial reform in the entire circulation system of finished oil products. However, due to the adoption of a special measure for farm-use diesel, the supply policy, price, and channel of farm-use diesel did not have any change in the first half of 1994. The amount of supply managed to reach 42 percent of the annual plan. Beginning the second half of 1994, the state plans to merge the two pricing systems for the supply of all finished oil products. As for diesel needed for agricultural production, oil companies at all levels will adopt effective measures to guarantee the amount of supply and give first priority to the supply.

### Heilongjiang Adopts Barter Trade Measures for Grain

94CE0606B Harbin HEILONGJIANG JINGJI BAO  
in Chinese 18 Jun 94 p 6

[Article by Staff Reporter Gui Tiejun (2710 6993 6511): "Procedures and Control Measures for Application of Barter Grain Permit of Heilongjiang Province"]

[Text] In order to fully utilize state-assigned grain export quota, Heilongjiang Province adopted the following stipulations regarding the application and control of barter grain export permits:

1. Upon presentation of an open-ended grain barter export contract, signed with the Common Wealth of Independent States and any East European nation, and proof for possible enforcement of the contract by the trade partner, a company may submit an application to the Heilongjiang Provincial Border Trade Bureau. After the application is approved, the company may notify its supplier to begin shipment and the provincial border trade bureau will process and issue an export permit or a letter of guarantee.

2. Exports and shipment of grain from any port of Heilongjiang Province must be accompanied by a letter of guarantee issued in accordance with the grain export quota by the Heilongjiang Provincial Border Trade Bureau bearing the signature of a Heilongjiang customs official with the consent of the Heilongjiang Customs. The number of letters of guarantee corresponds to the number of shipment of goods. A letter of guarantee is valid only for two months. It expires after the two-month period. After grain is shipped with a letter of guarantee, an export permit may be processed upon presentation of the export customs declaration form, a photo copy of letter of guarantee, a photo copy of contract, and an export permit application form. The export permit needs to be filed with the customs within the allowed time period to close the case.

3. The general principle for exporting grain from ports in other provinces is "one permit per shipment." The provincial border trade bureau send special people to Beijing to obtain such permits which are then managed in two ways. One way is that such permits are controlled

by special officials of the provincial border trade bureau who will declare and verify customs as each shipment is made by the company. All business and travel expenses of above officials and costs for obtaining permits are paid for by the company involved. Another way is that the company may pay 40 yuan of deposit per ton and keep the permit itself. After a shipment is made, the customs will process the return of deposit according to the amount of exports actually declared on the customs declaration form. Such permits are good for 6 months. If a shipment is not made within the given time period, the deposit will be earmarked for general use by the provincial border trade bureau.

4. According to the No. 381 Notice issued by the Ministry of Foreign Economic Relations and Trade in 1993, in addition to the aforementioned requirements, to apply for an export grain permit, a company is required to fill out a "form of registration for sea transportation of barter grain export." For barter grain exported by sea to former Soviet Union nations, the export contract should include a clause specifying that "the purchaser guarantees that it will not transfer the goods to another country and will provide proof that the goods are unloaded at the port of destination and a copy of import customs declaration sheet." If the original contract does not have this clause, it should be amended to include it. If no such amendment is made, the contract will not be accepted for filing, nor will an export permit be issued. After barter grain is shipped to destination, a company should take the proof of unloading and import customs declaration form to the provincial border trade bureau to go through the procedures for closing the account within one month of the shipment for destinations of far east areas and three months of the shipment for destinations of European countries.

If a company is found through verification to have transferred barter grain from former Soviet Union and East European nations to other nations for cash, the Ministry of Foreign Economic Relations and Trade will immediately revoke the violating company's right to engage in barter trade.

5. After exporting barter grain, a company must report to the planning and trade departments of the provincial border trade bureau on the situation of the execution of its plans. Those failing to do so will not be issued grain export quotas in the future.

### Sichuan, Anhui Report Wheat Storage

#### Sichuan Wheat Storage

94CE0612D Chengdu SICHUAN RIBAO in Chinese  
3 Jul 94 p 1

[Summary] As of 25 June, Sichuan Province had put 920 million kilograms of wheat in stock, fulfilling 65.8 percent of the procurement task; and put 260 million kilograms of rapeseeds in stock, fulfilling 34.9 percent of the procurement plan

### Anhui Wheat Storage

94CE0671G Beijing JINGJI CANKAO BAO in Chinese  
7 Aug 94 p 1

[Summary] By the end of June, Anhui Province had put 1.49 billion kilograms of wheat in storage, of which 1.15 billion kilograms were fixed quota, fulfilling 95.3 percent of the task.

### Shanxi Reports Summer Grain Output

94CE0671F Taiyuan SHANXI RIBAO in Chinese  
24 Jul 94 p 1

[Summary] This year the gross output of summer wheat in Shanxi Province was 2.954 billion kilograms, a decline of 300 million kilograms, or 9.22 percent from 1993. Gross output of coarse grains was 94 million kilograms.

Major reasons for the decline in wheat output are: 1. The wheat area declined from 15,353,000 mu in 1993 to 15,007,000 mu. 2. Because of drought, the per mu yield declined. The per mu yield was 196.84 kilograms, a decline of 15.08 kilograms, or 7.12 percent from 1993.

### Review of Cotton Deregulation Policies

94CE0631A Beijing ZHONGGUO NONGCUN JINGJI  
[CHINA'S RURAL ECONOMY] in Chinese No 6,  
20 Jun 94 pp 28-35

[Article by Dong Ying (5516 6601) and Cheng Jianhua (4453 1696 5478), Economic System and Administration Institute, State System Reform Commission: "Historical Retrospective on China's Cotton System"]

[Text] 1. The Cotton System Before Reform and Opening to the Outside World

1. **Basic System for Monopoly Procurement and Allocation.** During the period immediately following the founding of the people's republic, the state made a gradual transition from fixed contract procurement to monopoly procurement of cotton, setting up the country's basic system for monopoly procurement of cotton. With establishment of the system of planned economy in China, the state instituted a monopoly procurement and monopoly allocation system as a means of controlling and allocating cotton in a planned way to ensure the needs of industrial production, the people's livelihood, and foreign exports. On 9 September 1954, the State Council held 224 political meetings in which it heard and approved "Reports on Preparations for Carrying Out Planned Buying and Planned Supply of Cotton Cloth, and Planned Procurement of Cotton," and approved the "Directive on the Conduct of Planned Procurement of Cotton." This directive provided as follows: All cotton-growing peasants shall sell all the cotton they produce to the state at the state-set price except for the amounts used to pay their agricultural taxes and portions they must retain for their own use. When the peasants must sell the cotton retained for their

own use, supply and marketing cooperatives will continue to buy it. Private cotton merchants may not engage in the procurement or transportation of unginned or ginned cotton for sale. Privately owned retailers of wadding cotton shall continue to obtain wadding cotton from the China Yarn and Cotton Cloth Company to maintain their business. Privately owned unginned cotton processing industries shall assign processing to supply and marketing cooperatives. Supply and marketing cooperatives shall provide processing facilities for unginned cotton that the peasants retain for seed. Subsequently, the Party and government further perfected and strengthened the monopoly procurement system at different time as various problems occurred in economic life. After deregulation of small free markets for local native products in 1956, for example, state monopoly procurement cotton also flowed into the free markets hampering monopoly allocation. In order to improve leadership and control of free markets, limits were set on the scope of free market dealings. On 18 August 1957, the State Council issued "Regulations on Not Permitting the Entry into Free Markets of State Plan Procurement and Monopoly Procurement Agricultural Products and Other Goods." This regulation further provided that all cotton was to be procured under state plan. Buying and selling it in free markets was not permitted. On 3 March 1963, the CPC Committee and State Council stated in regulations on several problems in grain work and agricultural products procurement work that the contracting of procurement was not to be applied to cotton. Except for the amount or percentage that the state permitted peasants to retain for their own use, all other cotton was to be purchased by the state. On 25 September 1967, the Central Committee issued "Circular Notice on Making Sure To Do a Good Job of Autumn Agricultural Products Requisition Collection and Requisition Procurement." This notice reiterated that except for the portion that could be retained according to plan, all else must be purchased.

2. **Centralized Uniform Administrative System.** Cotton was a commodity in China's highly centralized, uniform planning system. With establishment of the planned economy system, on 19 November 1958, the State Council issued "Regulations on Level-by-Level Administration of Agricultural and Sideline Products, Foodstuffs, Livestock Products, Raw Silk, and Silk Fabric." This regulation defined cotton as a category I commodity, the cultivation, procurement, pricing, allocation, supply, storage, import, and export of which was to be administered by state command-style plans under unified leadership of the State Council. Specific tasks were to be assigned by the State Council to subordinate ministries and commissions concerned for disposition. Because of the fairly small amount of cotton produced and the shortage of supply, the State Council sponsored several nationwide conferences on cotton work over which the prime minister usually personally presided. The cotton problem was also one of the important topics at each annual agricultural production conference. The

state-prescribed cotton area could not be changed at will in most cases. The state established relatively concentrated cotton growing areas based on local natural conditions, socio-economic conditions, and the need for cotton commodity production bases. Concentrated production was a means used to raise the production rate further, make procurement easier, and ensure the cotton supply needed for textiles.

Cotton imports and exports were under centralized control of the Textiles Import-Export Corporation. The Ministry of Commerce was responsible for cotton stocks, province, city, and autonomous region supply and marketing cooperatives acting on its behalf according to state plan and needs. Without Ministry of Commerce approval, no cotton could move. The government instituted a subsidy policy that was used mostly to pay a higher price for excess cotton procurement, for some award sale price differentials, the differential price for movement of cotton out of a province, and interest on cotton reserve loans. Every level from top to bottom compiled reports on cotton supply, which were ultimately approved and handed down by the State Council. After the state handed down these plans, they were carried out from top to bottom. Specifically, their implementation over a period was planned and organized according to Ministry of Commerce plan. The Ministry of Textile Industry was responsible for the use and administration of cotton resources. Textile administration agencies at all levels set up agencies to administer the supply and marketing of raw cotton. In order to ensure the use of premium cotton for quality goods, during the 1950s the Ministry of Textile Industry uniformly prescribed the blend of cotton used in each kind of yarn as the grades and cotton fiber length of available cotton nationwide permitted. Next, it uniformly allocated cotton on the basis of each province's and city's production plan. As the textile industry developed, a system of "regional balance and differential allocation" was instituted for the use of cotton. This system provided that each province and city had priority in the local use of the cotton it produced, the surplus to be allocated by the Ministry of Commerce and the Ministry of Textile Industry.

Since the advent of centralized procurement, the state has assigned virtually all cotton procurement and processing to supply and marketing cooperatives. Supply and marketing cooperatives' cotton and hemp corporations do the actual work. Provinces, prefectures, and counties in key production and marketing areas have set up specialized operating agencies that handle cotton procurement, processing, distribution, and storage, and receive imported cotton. Grass-roots level supply and marketing cooperatives handle the task of buying cotton on behalf of these agencies, and organize its sale to the state. Some provinces have also set up cotton procurement stations under direct jurisdiction of county cotton and hemp corporations. All corporations above the county level do unified planning, level-by-level accounting, and are responsible for their own profits and

losses. Some provinces practice uniform provincewide accounting, uniform responsibility for profits and losses or, for category 2 stations and above, the province-level corporations do unified accounting and are responsible for profits and losses. The sequence of events is as follows: after grass-roots level procurement stations buy cotton, they turn it over (sell it) to processing plants. After preliminary processing, the cotton is turned over to a category 2 station as required by the allocation plan. Finally, the cotton is sold to customers. The difference between the procurement and sale price is set by a higher authority. Allocation is made at procurement and processing, and when the cotton is turned over to category 2 stations. Each of these links in the sequence must buy and sell the cotton at a prescribed price.

**3. Changing Policies.** (1) **Price Policy.** Since grain production accounts for such a large percentage of agricultural production in China, the government plans grain prices first when setting procurement prices for agricultural products. Then it uses the price of grain as the basis for planning the price of other agricultural sideline products. Immediately following the founding of the people's republic, each year the government announced the price ratio between cotton and grain before planting began each year in order to revive production of cash crops. On 11 April 1950, for example, the State Council's Finance and Economics Commission set the 1950 price ratio in "Notice on Ensuring a Fair Price for Cotton, Hemp, and Grain." The grain conversion figure per jin of  $\frac{3}{4}$  cun medium grade ginned cotton was 8 jin of millet in the major production areas of north China and Shandong. In the main cotton growing areas of Henan and Shaanxi, it was 7 jin of millet. In major cotton growing areas in the Chang Jiang basin, it was 6.5 jin of husked rice. On 7 March 1951, in "Instructions on Ensuring the Grain and Cotton Price Ratio," the State Council's Finance and Economic Commission changed these grain conversion figures for standard grain ginned cotton to 8.5 jin of grain per jin of cotton in Hebei, Pingyuan, and Shandong provinces. In Shanxi the conversion rate was 9 jin of millet; in Shaanxi and Henan, it was 8 jin of millet; and in Hubei it was 8.5 jin of intermediate maturing. During the mid-1950s, the price ratio between grain and cotton underwent several readjustments, sometimes rising and sometimes falling. Agriculture sustained two consecutive years of disasters during 1959 and 1960, outputs of some agricultural and sideline products falling sharply. In order to stimulate earliest possible revival and development of agricultural production, not only did readjustments of differential prices and unreasonable price ratios for some agricultural and sideline products continue, but procurement prices of agricultural and sideline products began to be raised tremendously throughout the country. The price of cotton was not changed, however. Nor did changes in the higher prices or awards paid for the purchase of agricultural products in excess of quotas apply to cotton; thus the cotton-grain price ratio declined. The year of greatest increase in cotton procurement price during the



1960s was 1963 when it rose 10 percent. Later on, the price of cotton was changed many times to bring the grain-cotton price ratio into line. In 1972, the cotton procurement price increased 3 percent as an accompaniment to the application of new cotton grading standards.

In short, between 1950 and 1989, the price of cotton increased 12 times and decreased five, with the cotton price index rising 50.13 points (taking 1950 as 100). Nevertheless, the degree of increase was lower than the comparative price index for various other oil-bearing crops, cash crops, and grains. Because of the adoption of a unified form of management for agricultural production, neither cotton output nor investment was directly affected by price policy changes. The government's goal in adjusting prices during this period was mostly to maintain a certain cotton field growing area and not cutting into the grain growing area. Its goal was to provide a sufficient grain ration for cotton growing peasants to keep cotton output relatively stable.

(2) Award sales policy. Owing to the serious natural disasters and the aftermath of the Great Leap Forward during the early 1960s, cotton output dropped tremendously. In order to revive cotton production rapidly, the state resorted to an award sales policy. This policy provided tangible goods to solve the cotton growing peasants' grain ration problems and increase investment in agriculture, and it also guaranteed a cotton field growing area to revive cotton productivity. On 3 April 1961, the CPC Central Committee issued "Instructions on Institution of Grain Awards For Procurement of Major Cash Crops." This instruction provided for award sales when the state purchased cotton, the award being the sale of 35 jin of grain per dan of cotton sold. Because of difficulties in supplying the award sale grain, in 1962 award sales of chemical fertilizer replaced the award sale of grain. On 16 June 1968, the CPC Central Committee forwarded the State Council's "Circular Notice on 1968 Award Sales Standards for the Procurement of Agricultural and Sideline Production." This notice called for a gradual change from award sales of chemical fertilizer to special purpose chemical fertilizer for various cash crops, and incorporation of this provision into the distribution plan. In view of the total amount of chemical fertilizer obtained from award sales for agricultural products during the previous year, beginning in 1968 award sales to production teams whose growing of agricultural products was assigned by plan were no longer figured on total amount of procurement. In 1968, peasants were offered coupons for the purchase of 3 rather than the former 5 chi of cotton cloth for each jin of cotton retained for their own use that they sold to the state. The amount was changed back to 5 chi in 1971. The difference between one region and another and one sector and another in award sales standards for agricultural and sideline products hurt both production and procurement. Therefore, on 19 March 1973, the State Council decided on a uniform award sales system for major agricultural and sideline products. This included an award sale of 70 jin of chemical fertilizer per 100 jin

of ginned cotton, and an advance of 40 jin of chemical fertilizer per mu of planned sowing area.

Award sales were made during a time of a cotton scarcity and when two different pricing methods were used. These sales offered encouragement to the peasants, and they were even more a subsidy in kind to encourage the peasants to sell more cotton to the state. During times of economic difficulties, in particular, when the government could not provide a large quantity of major agricultural products to buy cotton from the peasants, and when it was also unable to raise cotton procurement prices across the board, award sales provided a workable solution. Their side effect was difficulty in knowing what rational limits to set on award sales. Such sales also created conflicts among different goods, between one area and another, and between domestic and foreign trade, and they worsened the unbalanced distribution of some major commodities. They had some bad effect on maintenance of growing areas, and on relations between the state and the peasants.

(3) Technology policy. Improvement of cotton varieties, and doing a good job of supplying means of production such as chemical fertilizer and agricultural pesticides has a very large correlation to increases in cotton productivity. Every place in the country replaced old varieties with better ones several times in order to improve cotton yields and quality. Four times since the founding of the people's republic, superior varieties have been introduced from abroad on a fairly large scale. In 1950 a cotton variety known as Daizi No. 15 was introduced. It increased yields an average 15 percent or more. In 1958, Daifu cotton was introduced. It increased yields another 5 to 10 percent. During the mid-1960s and during the mid-1970s, cotton varieties were twice introduced, but results were not very good for various reasons. Yields fell between 3 and 5 percent. At the same time, China intensified its own efforts to develop new varieties, breeding a number of superior ones. As chemical fertilizer and agricultural pesticide production increased, cotton field applications of both increased. This also promoted increased cotton yields.

(4) Quality policy. Cotton quality has a very great influence on textile production. In order to promote cotton production, improve cotton quality, and carry out a policy of premium price for premium quality cotton, and premium quality cotton to be used for premium quality products, the Ministry of Textile Industry, the Ministry of Commerce, and the Ministry of Agriculture worked together, coming up with China's first uniform cotton grading system in March 1950. They established three grades: fine-staple white cotton, fine-staple yellow cotton, and short-staple cotton. These were all standards for roller cotton gin-processed ginned cotton. Each was divided into five grades, a 1/32 in difference in length being the unit used for grading. At the same time, different prices were set on the basis of different grades and length of the raw cotton fiber. In 1955, grade standards were drawn up for saw gin-processed cotton.

In 1972, all departments concerned also drew up, in conjunction with 19 provinces and municipalities, a trial draft of "National Standards for Fine-Staple Cotton" for trial use throughout the country. A "separate picking, separate sunning, separate storing, separate sale, and separate ginning system" were also adopted for cotton of different quality. This improved the quality of Chinese cotton. In China cotton is tested for five qualities: grade, fiber length, moisture content, foreign matter, and unginned cotton lint yield. A system of "five specifications in a single test" that combines professional testing with democratic grading is used. The five specifications are finding the lint yield through trial ginning, finding the grade through comparison of standards, finding length through hand stapling, finding moisture content through the use of electric metering, and determining foreign matter content through the use of a hand metering and visual inspection comparative analysis machine. This provides the needed information for applying the principle of setting price according to quality and using cotton in a rational way.

## 2. Reform of the Cotton Circulation System

1. **No Essential Change in the Procurement System.** The system that has lasted the longest in China's agricultural products procurement since founding of the people's republic is the monopoly procurement and monopoly marketing system. Monopoly marketing began with grain in 1953. Later on, it was gradually extended to all category 1 products. Monopoly procurement means monopoly state procurement of all applicable agricultural and sideline products. No other department or individual may take part in this. Later on, this system evolved into two procurement systems. One was exclusive procurement, meaning exclusive state procurement of applicable agricultural products with the exception of small amounts retained by producers. Exclusive procurement was practiced from 1954 to 1979. The other system was fixed base figure procurement, meaning the setting of a monopoly procurement base figure that endured without change for many years, this figure being based on average output for a certain number of years (usually three years) before the plan period, and at a certain procurement-retention ratio. For output amounts in excess of the base figure, the state handed down a yearly excess procurement quota based on annual plan as a means of balancing production with demand, the state paying an added procurement price for such purchases. Base figure cotton procurement began in 1980. On 1 January 1985, the CPC Central Committee and the State Council promulgated "Ten Policies for Further Invigorating the Rural Economy." This document explicitly provided that beginning in 1985, except for individual varieties, the state would no longer prescribe centralized procurement and assigned procurement quotas for the peasants. Monopoly procurement was abolished for grain and cotton, fixed contract procurement substituted. All grain that the state did not purchase through fixed procurement could be sold on the market, but

cotton in excess of fixed procurement quotas could not be sold in the market. This marked the end in China of the monopoly cotton procurement system that had endured for 33 years. This was an important step in the reform of China's cotton procurement system. However, this reform ran into a series of problems from the very beginning. Fixed procurement plans were not sufficiently attractive. State cotton procurement plans could not be fulfilled through voluntary discussion and agreement alone. Cotton allocation was very elastic, but fixed procurement was very unreliable. The conflict between the two was extremely sharp.

Reform began with the procurement system, but the allocation system was never disturbed very much. As prices rose with a decline in cotton production, the government lost the cotton price advantage conditions necessary to arrange commodity exchange with the peasants. Some jurisdictions had no choice but to re-institute compulsory administrative methods to ensure fulfillment of fixed procurement contracts. They barred peasant access to markets to ensure that contracts were honored. In 1985, China's cotton production began a decline that lasted several years during which demand for cotton was much greater than supply. Fixed procurement contracting really evolved once again into centralized state procurement. Fixed contract procurement had a strong element of compulsion. The fixed procurement quantities were largely fixed, and producers had no right to choose to whom they would sell.

The monopoly cotton procurement system existed during a period of cotton shortage. In 1984, however, China's cotton production set an all-time high record, a cotton surplus occurring. This presented a very good opportunity for reform of the centralized procurement system. In 1985, the Central Committee immediately proposed reform of the centralized procurement system in favor of fixed contract procurement. However, because of a drop in cotton production for several years running, conditions for carrying out reform changed. In consequence, a return to the old monopoly procurement offered the only way out. Compulsory administrative methods were employed to concentrate cotton resources at a time when cotton resources were in very short supply.

2. **Readjustment of Procurement Prices Was the Main Component of Reform.** Under the centralized procurement and allocation system, the cotton procurement price was set mostly to satisfy specific national income goals. It became an important means by which the state transferred money out of rural villages. Even though the state used agriculture to accumulate funds for industry, this was done at a cost of slowing cotton production, a cotton shortage, and long-term impoverishment of cotton-growing peasants.

In order to make up gradually for the overly low prices of agricultural products, thereby further narrowing of the

price scissors between industrial and agricultural products, in 1978, the state raised substantially the procurement price of 11 mountain forest specialty products. It raised prices approximately 25 percent. It also decided to raise the cotton procurement price effective 1 August 1978. This was a 10 percent rise in the cotton procurement price, i.e., the price of ginned cotton nationwide rose from 115 to 126 yuan per dan. On 1 March 1979, when the State Council decided to raise the procurement price of some agricultural products beginning in March, the cotton procurement price rose 15.2 percent, and an additional 30 percent began to be paid for production above quota. In addition, a 5 percent extra price subsidy was provided cotton growing areas in north China inasmuch as per unit yields there were relatively low. Thus, the cotton procurement price, including the various markups, rose an average 25 percent. This meant an average increase from 126 to 157 yuan per dan in the procurement price of ginned cotton nationwide. In 1980, the state raised the cotton procurement price once again, this time by an average 10 percent nationwide. This meant an average increase in the procurement price of ginned cotton nationwide to approximately 172 yuan per dan. The previously instituted 30 percent excess procurement price and the 5 percent subsidy for north China cotton growing areas continued in force. At the same time, a cotton sales policy was put into effect for paying compensation in kind to the peasants. In 1978, the State Council decided on an award sale of 50 kgs of chemical fertilizer per dan of ginned cotton, and 42 kilograms of chemical fertilizer per dan of sawtooth-ginned cotton to take effect with the marketing of the new cotton crop. After instituting an excess procurement price in 1980, the State Council decided on an award sale of 2 kilograms of grain per kilogram of ginned cotton for all cotton procurement above the base figure.

Increase in the procurement price of cotton for five years running, and inauguration of an award sales policy at a time of hiatus between the cotton procurement price and supply and demand, and absolutely no contact between cotton-growing peasants and the market, stirred the interest in production of the cotton-growing peasants. Cotton output rose steadily. However, it was the central government treasury that paid for the increase in cotton prices for three consecutive years. The rise was not included in cotton farming costs. Thus, the bigger the cotton harvest, the greater the treasury's difficulties. The government was between a rock and a hard place: Either the peasants would have no interest in growing cotton, or the treasury's burdens would be excessive. Since the sale price of cotton was not decontrolled, the procurement price of cotton could be raised only at the expense of the central government treasury. The great bumper cotton harvest of 1984, which produced a relative cotton glut and the accumulation of cotton in inventory, added to the treasury's straitened circumstances. With improvement in the cotton supply, the State Council decided to change the excess cotton procurement price beginning in 1984. The additional price would be paid, not for

everything above the base figure, but at a percentage. In southern cotton growing areas, a true 40-60 percent (40 percent added price, 60 percent state price) was used in settling the procurement price. In northern cotton growing areas, an inverse 20-80 percent (80 percent added price, 20 percent state price) applied. At the same time, the 5 percent added price subsidy for cotton procurement in northern cotton growing areas was abolished. In 1985, an inverse 30-70 percent ratio for calculating procurement prices was instituted in northern cotton growing areas. This produced a decline in the procurement price. In 1986, the state further reduced the added price percentage. In northern cotton growing areas, the added procurement price ratio was changed from the inverse 30-70 to an inverse 40-60 percent, the procurement price of cotton continuing to decline in consequence. Accompanying the drop in cotton procurement prices was a decline to 3.497 million tons of the amount of procurement nationwide during 1985. This was 35 percent less than in 1984. In 1986, procurement fell to 3.1 million tons, and once again the supply of cotton was less than demand. In order to stimulate cotton production, the State Council decided that with the marketing of the new cotton crop in 1987, a uniform inverse 30-70 price ratio would apply for procurement of both southern and northern cotton. This meant an increase from 163.30 to 176.42 yuan per dan in the average price of standard grade southern cotton, and an increase from 172.04 to 176.42 yuan per dan for standard grade northern cotton. Thus, the price of northern and southern cotton became the same. In January 1989, the State Council decided to revamp cotton procurement policy, raising the procurement price of standard grade ginned cotton from 176.42 to 211.42 yuan per dan. In order to prevent a continuing slide in cotton production, the State Council convened a panel discussion on cotton production throughout the country in Beijing during late February. On 28 February, the State Council raised the cotton procurement price once again, this time raising the procurement price for standard grade ginned cotton to 236.42 yuan per dan beginning with marketing of the new cotton crop in 1989. On 13 February 1990, the State Council convened a telephone conference on cotton production nationwide. It decided to raise the procurement price of standard grade ginned cotton from 236.452 to 300 yuan per dan effective with marketing of the new cotton crop in September 1990. These three consecutive forced cotton procurement price increases stimulated cotton production. In 1991, the state bought 100 million dan of cotton throughout the country, making this the second largest bumper harvest year in history. This was followed by a consecutive year decrease in cotton output during 1992 and 1993.

Intermittent increases in cotton procurement prices without fundamentally changing the cotton circulation system satisfied the rise in the peasants cotton production costs and the rise in the sale price of cotton, thereby spurring cotton production. However, these government price increases were only makeshift measures instituted



because the cotton circulation system was not working well. Several serious problems with the system itself still existed. First of all, these price increases were a passive response to the problem. Because the sale price of cotton was not decontrolled, the additional cost of paying for the increase in cotton procurement prices was borne by the treasury. Statistics show that in 1991 alone, the central government treasury paid 42.2 yuan for every dan of cotton purchased. (This included a 30.62 yuan subsidy, a 2.50 yuan diesel fuel subsidy, and a 9.10 yuan chemical fertilizer award sale subsidy.) It spent 4.281 billion yuan for the year. This burden equalled Shanghai's payments to the state treasury for  $\frac{1}{2}$  year. In addition, local government payment burdens were also very heavy. Raising the cotton procurement price stimulated cotton production, but it increased fiscal burdens. Therefore, with each cotton price increase, the government had to strike a balance between how much cotton it wanted produced and the amount it was able to pay. Second, the rise in cotton procurement prices at the expense of an increase in treasury payments reacted only slowly on cotton markets. Procurement prices could not be raised at once in response to market requirements, nor could the cotton-growing peasants interest in growing cotton be increased at once. Since the state-set price was not the market equilibrium price arrived at through the action of supply and demand, it was generally lower than the market price; thus, it artificially decreased producers' profits. The low price of cotton meant greater profits for spinners and textile producers. Some cotton producing areas rushed to set up numerous small cotton yarn and textile mills, which competed with large textile mills for raw materials. The result was an increase in production capacity and mindless expansion of the textile industry which already had surplus production capacity.

**3. Cotton Allocation Changes Were Only a Means for Easing Clashes of Interests Between One Area and Another** Textile concerns included the cotton they needed in their procurement and allocation plans. Yarn plants had to buy the cotton they needed from cotton suppliers. Each year firms that used cotton had to present a cotton requirements plan to the local supply and marketing cooperative, each supply and marketing cooperative collating the individual reports into a master annual plan. Following examination and approval by the people's government (or planning commission) at the same level, this master plan moved upward level by level. Following submission to the State Planning Commission for examination and comprehensive balancing, the balanced plan for total supply and demand that the Ministry of Commerce prepared, and individual province plans were presented to the State Council for ratification and issue. After the state plan was issued, the Ministry of Commerce planned the phasing of the plan and organized its implementation. The government made balanced allocations of cotton production quotas to separate cotton growing areas, i.e., a balance between procurement and sale in each area. It moved surpluses in

one area to another area, and brought cotton into cotton-short areas. Before 1979, allocation quotas were set for each year, but beginning in 1980, base figures for cotton allocation were instituted. Because of the year-by-year increase in cotton production between 1980 and 1984—1984 being the all-time peak year—the state loosened plan allocation of cotton. On 28 December 1984, the State Council Standing Committee discussed development of the textile industry. The meeting decided to delegate to textile mills the authority to choose the cotton raw materials they wanted to buy. "Henceforth, no longer will the cotton supplied to mills be matched to their needs. Instead, each mill will select from cotton and hemp corporations in growing areas the kinds of cotton it needs for production, or it may select and buy what it needs from the peasants directly." At first, this system put producers and users in touch with each other, but owing to the tremendous decline in cotton production during 1985, this only just begun reform was scrapped in a rapid return to plan allocation. On 6 September 1985, the State Council ratified and forwarded "Report on Readjustment of the 1986 Cotton Production, Procurement, and Marketing Policy," which the Ministry of Commerce and other ministries had prepared. This report said that the cotton requirements of textile firms must be included in procurement and allocation plans. Beginning with the marketing of the new cotton crop in 1985, the cotton that yarn mills needed had to be selected and purchased according to plan from agencies dealing in cotton. Industrial users could not buy cotton directly from producers. With the year-by-year slide in cotton production and the rapid expansion of the textile industry, a shortage of cotton began after 1985. The cotton allocation system encountered challenges in real operation. Major cotton production areas intercepted national plans. Thus producing areas put the squeeze on marketing areas, small mills contended with small mills for cotton, and the use of cotton outside plan robbed cotton from projects included in plan. Individual small retailers, township and town enterprises, small yarn mills, and even state-owned yarn mills competed with each other to buy cotton. Before marketing of the new cotton crop in 1987, a "cotton war" broke out in which many different groups contended to buy cotton.

In order to avoid a major cotton war stemming from the clash of interests among cotton production and marketing areas, and to balance the interests of production and marketing areas, beginning with the marketing of the new crop in 1989, a system of contracting to move cotton out of surplus and into deficit areas was instituted. After provinces and regions from which cotton was transported filled their shipping quotas, the province allocated all remaining cotton. That portion in excess of procurement was divided up between the central government and the local government at a 30-70 ratio. The base figures for contracting in-shippments and out-shippments were issued jointly by the State Planning Commission and the Ministry of Commerce. In 1989, 90 percent of inter-province allocations were completed, and in 1989,

88.8 percent of plan was fulfilled. In 1991, the state fixed procurement plan was fulfilled for the first time since fixed cotton procurement was inaugurated in China. Contracting the in-shipment and out-shipment of cotton both took account of the interests of producing and marketing areas, and assured the needs of industrial production. Nevertheless, in contracting the allocation of cotton, whenever supply and demand for cotton were in balance or when supply exceeded demand, a clash occurred between plan-allocated cotton and cotton outside plan. When a nationwide bumper cotton harvest occurred in 1991, cotton producing areas offered large quantities of low priced textile-grade cotton. This low cotton price was generally about 1,000 yuan per ton lower than the plan price. Thus, textile mills in marketing areas bought their cotton from local cotton and hemp corporations. Allocation plans were carried out extremely slowly.

Inasmuch as reform of the cotton marketing system continued to be limited to planning means, reform of the allocation system that had been in effect for several decades was tried only in places where interests were balanced. Progress was very slight, and even today a cotton marketing system that meets the needs of a market economy cannot be proposed.

**4. Dealings in Cotton Continue To Be a Unified Domain.** Operation of supply and marketing cooperatives is based on the following knowledge: Cotton is an important strategic material and an important raw material for light and textile industries. The supply of cotton never meets demand. Only a monopoly can control this important material to ensure enough to meet the needs of the country and the people.

With the great bumper harvest of 1984 when a "cotton glut" occurred, people generally believed conditions were in being to decontrol cotton dealings. Government organs concerned announced that "cotton-growing peasants may themselves sell in markets all cotton remaining after fulfillment of fixed contract quotas, and the state will buy this excess at the market price. It will offer no additional price and make no award sales for it. In the sale of cotton, plan supply has been replaced by yarn mills selecting and buying cotton from cotton and hemp corporations, or they may buy it from the peasants." This regulation changed the circulation channels of the old plan, but the new channels were never set up. In 1985, when cotton output declined tremendously and the textile industry expanded mindlessly, a cotton shortage occurred once again, and the cotton circulation order became chaotic. Following State Council approval during the last half of 1985, free selection and purchase was changed to plan selection and purchase, and it was made clear that both cotton production in excess of fixed cotton procurement and cotton covered by contracts would be handled according to the same policy. A series of documents from the State Council during 1987 and 1988 reiterated the following: Supply and marketing cooperatives are to have a monopoly on cotton dealings.

Cotton markets will not be controlled. Specific policy provisions are as follows: (1) No deregulation of cotton markets before fulfillment of nationwide fixed contract procurement quotas. Cotton markets that have been deregulated shall be closed without exception. (2) Except for supply and marketing cooperatives and their subordinate cotton dealing units that the State has authorized to buy, process, store, and allocate cotton, no other department, unit, or individual may engage in the procurement or sale of cotton. Units other than supply and marketing cooperatives and their subordinate cotton dealing units to whom licenses have been issued to deal in cotton that industrial and commercial bureaus have not approved for the reissuance of licenses must be re-examined and verified. Those whose licenses should be cancelled must be ordered to register anew or have their business licenses rescinded. (3) Cotton that cotton-growing peasants and production units produce (including short-staple cotton and ungraded cotton) must be sold to supply and marketing cooperatives and their subordinate cotton dealing units. (4) Those who violate the law by dealing in cotton without a license, hiking prices or engaging in preclusive buying, or speculating in cotton shall be punished severely. (5) Yarn mills may not purchase or buy up cotton illegally in cotton growing areas in any way, shape, or form. In order to ensure enforcement of the above policy, the State Council has sent out "cotton procurement inspection teams" in recent years. They travel around key cotton growing provinces and neighboring province cotton growing areas during the busy season in cotton procurement to investigate and deal with problems.

In view of the state procurement of more than 100 million dan of cotton in 1991, State Council Document No 55, which approved and forwarded "Views on Reform of the Cotton Circulation System," which the State System Reform Commission had drafted, "recommends use of preliminary pilot projects on the decontrol of cotton in Shandong and Henan provinces as a basis for adding Jiangsu in 1993 as a pilot project province for the decontrol of cotton. In pilot project provinces, instead of supply and marketing cooperatives having a monopoly on dealings in cotton, cotton markets will be decontrolled to permit cotton to be traded in markets. Supply and marketing cooperative cotton dealing businesses will have to change their operating mechanisms to make full use of strengths and enliven dealings. In addition, other enterprises will be allowed to deal in cotton in provinces where conditions permit and following approval. Non-reform pilot project cotton growing provinces (autonomous regions, and cities) will also be required to move ahead with cotton circulation system reform. After counties (or cities fulfill their state contract procurement quotas, they may decontrol the cotton market to permit free buying and selling."

Because of the 1992 decline in cotton production, this regulation was not carried out for long. State Council Document 61 of 1993 reiterated that "cotton covered by national fixed procurement plans shall continue to be

centrally procured and centrally administered by supply and market cooperatives. Until fixed contract procurement quotas are fulfilled throughout the country, cotton markets may not be deregulated. Units and individual not authorized to deal in cotton shall not deal in cotton." Because of the decline in cotton output, it is feared that a tumultuous situation of supply not meeting demand occurred in the three cotton decontrol pilot project provinces of Shandong, Henan, and Shandong, putting an end to their efforts. Today, cotton throughout the country remains a monopoly of supply and marketing cooperatives. Virtually no progress at all has been made in reform of the cotton operating mechanism.

**5. Grim Current Cotton Supply and Demand Situation.** 1991 was China's second all-time bumper cotton harvest year, cotton output amounting to 113.5 million dan (5.675 million tons). This was more than enough to meet domestic market needs, so 200,000 tons were exported. Insufficiently accurate judgments about the cotton supply and demand situation made in the wake of this bumper harvest produced the conclusion that an over-supply of cotton existed. Consequently, preferential policies to support cotton production were cut. At the same time, a rise in prices of the means of production increased the cost of cotton production inputs. This led, in turn, to a decline in peasant interest in growing cotton. In addition, because of the effects of a serious drought, insect pests, and an early frost in the cotton growing areas of the Huang, Huai, and Hai rivers, cotton output declined tremendously. Despite increases in output in cotton growing areas in the Chang Jiang basin and Xinjiang Province, cotton output for the country as a whole declined. The State Statistical Bureau reported a gross output of 90.56 million dan of cotton for the country in 1992, or 20 percent less than the previous year. In 1993, national cotton output continued to slide, output for the entire year totaling 3.76 million tons (75.2 million dan), or 16.6 percent less than the previous year. Since supply did not meet demand, the domestic market cotton demand price rose steadily, the price of cotton used in textile businesses increasing from 8,000 to 12,000 yuan per ton. According to a State Planning Commission Light and Textile Corporation report, the price of cotton in some places reached 16,000 yuan per ton in March 1994. According to an International Cotton Consulting Committee analysis, owing to a general shortage of the amount of cotton in inventory in countries other than China, world cotton prices for 1993-1994 and 1994-1995 will rise moderately. Cotton futures trading on the New York Commodities Exchange on 12 January 1994 showed a \$.696 per pound (\$.866 per ton) transaction value for cotton in March 1994, a \$.7066 per pound transaction value for cotton in May, and a \$.7145 per pound transaction value for cotton in July. On 4 March 1994, the spot price of cotton on the New York Commodity Exchange was \$.7798 per pound (\$2,090.60 per ton).

The soaring sale price of cotton and the stable procurement price produced a steady widening of the difference

between the procurement and sale price that provided fat profits for dealers in cotton. State Council Document 61 issued in 1993 provided that effective from 1 September 1993 the procurement price of standard grade ginned cotton would rise from 300 to 330 yuan per dan. A unified procurement price was put into effect for state fixed contract procurement cotton, which continued to be purchased and administered only by supply and marketing cooperatives. The enormous difference between cotton's purchase and sale price strongly attracted units not authorized to deal in cotton outside supply and marketing cooperatives to engage in cotton dealings. Surveys by units concerned showed somewhat more than 400 units other than supply and marketing cooperatives dealing in cotton in Xinjiang. In south China cotton growing areas, numerous individual and cooperative cotton processing plants have been built that are siphoning off some of the cotton sold. Some jurisdictions have not hesitated to bring to bear the force of public security, and industrial and commercial departments to investigate and confiscate illegal cotton operations. Nevertheless, a cotton market continues to exist despite repeated warnings. Those investigated have numerous opinions about the cotton monopoly of cotton and hemp corporations, their reliance on government-conferred special rights, and their obtaining of fat profits.

Historically speaking, as of now cotton remains one of an extremely small number of commodities under highly centralized, uniform plan control. State command-style plan control applies to the procurement, allocation, and supply of cotton, and the state sets the procurement price of cotton. Once the reform goal enunciated by the Fourteenth Party Congress of establishing a socialist market economy is realized, continuing to use plan to solve market problems in cotton circulation will clearly be no longer effective. Experiences in cotton circulation system reform gained during the past 15 years show that reforms having a market orientation can promote cotton production to change the shortage of cotton relative to demand. Conversely, actions that run counter to the market restrain cotton production, causing great ups and downs in cotton supply and demand.

**6. Overall Evaluation of Cotton Circulation System Reform.** During the past 15 years, China has made quite ample theoretical preparation for cotton circulation system reform. It has produced programmatic documents regarding cotton circulation system reform. "Views on Reform of the Cotton Circulation System" (issued on 29 August 1992 by the State System Reform Commission) sets forth clearly the ultimate goals of cotton circulation system reform as follows: to open up trading, decontrol markets, decontrol prices, and gradually build a highly efficient, smoothly operating cotton circulation mechanism under state macroeconomic control in which market regulation is paramount and internal and external trade are tied together. The methodology to be adopted is "running pilot projects first and



gradually moving ahead," basically completing the process within two to three years. Plans call for the operation of additional pilot project provinces in 1993. Depending on how the pilot projects go and the exigencies of production in 1994, controls will be relaxed a single time wherever they can be. If a single relaxation of controls is not possible, various other provinces will be selected for an expansion of the pilot project. By 1995, building of a new cotton circulation system should be substantially underway.

The actual process of cotton circulation reform shows that progress has been extremely slow so far. The old cotton circulation system remains essentially untouched. Cotton procurement, the setting of prices, allocation and supply, and administration remains under state plan control. An overwhelming majority of agricultural products have been decontrolled, but cotton is the last commodity for which the state sets a uniform price and exercises a monopoly.

In view of the importance of cotton and the shortage of supply, the state has also enforced rigorous plan control over cotton circulation. During this period, efforts at system reform have shown little progress because of the intense fluctuations in cotton output. Repeated reform efforts have been made only to wax and wane making progress difficult. In 1984 China's cotton output reached an all-time high, a cotton glut ensuing for a time. The government proposed some measures having a market orientation to reform the cotton circulation system. However, owing to the rapid tremendous slide in cotton production and the mindless expansion of the textile industry, another cotton shortage occurred, so there was no choice but to return to the old course of plan control. This stabilized cotton production for a short time, but increased the state's fiscal burdens. Following each bumper harvest, it is difficult to sell cotton, so cotton output drops drastically in the next cotton production year. The great changes in supply and demand for cotton makes achieving balance very difficult. If supply does not meet demand, there is so much cotton that the peasants suffer. Following the second great bumper cotton harvest in 1991, cotton circulation system reforms were inaugurated again. However, owing to the continuous decline in output during 1992 and 1993, there was no choice but to return to the old road of plan control in cotton circulation.

Since cotton circulation system reform and cotton production are closely linked, and since cotton production is affected not only by man-made factors but also by floods, droughts, frost, insect pests, and such natural disasters, it is extremely difficult to choose opportunities for undertaking cotton circulation system reform. Some people say that China missed the best time for cotton circulation system reform, meaning the period between 1984 and 1987, bakes at that time the country had ample reserves to exercise macroeconomic regulation and control and to deal with any natural disasters.

It was not until after 1990 that full reform of the cotton circulation system was put on the agenda. In the winter of 1990, the State Council Research Office organized the units concerned to present a series of research reports on reform of the cotton circulation system, which were provided to policy makers for their consideration. In 1992, the State Commission for System Reform also drew up a concrete plan for cotton circulation system reform, but lack of a suitable opportunity made inauguration of reforms difficult. Today, it is extremely urgent that the subject of reform of the cotton circulation system be raised once again and continue to full reform of the cotton circulation system.

### Measures on Fertilizer Prices

04CE0628A Beijing ZHONGHUA DISAN CHANYE  
BAO in Chinese 20 Jun 94 p 7

[Article: "State Reform Measures For Controlling Fertilizer Prices"]

[Text] Rising prices of crude oil and natural gas have resulted in a sharp increase in fertilizer production costs. After reviewing the situation and seeking the opinions of each locality's pricing department, the State Planning Commission has proposed reform measures for controlling fertilizer prices, along with an appropriate increase in fertilizer prices. These proposals were approved by the State Council, and went into effect on 1 May of this year. All previous regulations which are in conflict with these new ones are now superseded.

(1) Reform fertilizer price control measures. On the principle of letting the market form the price, set a definite price for the original State uniform price of uniformly allocated fertilizers, and a price cap on fertilizer prices administered by localities and fertilizers outside of plan. Stipulate the median and standard price and the degree of up-and-down fluctuation for the ex-factory price of fertilizers, allowing enterprises to themselves set the specific ex-factory price within the range allowed by the State. The allocated price and the retail price will implement operational balance or control the profit rate.

(2) The producers' prices for carbamide and ammonium-nitrate produced by 16 enterprises such as Nanjing Xixiashan will be stipulated by the State Planning Commission. The median and standard price for ex-factory carbamide is 1000 yuan per ton; the median and standard price for ammonium-nitrate is 700 yuan per ton. Based on the above median and standard price, each manufacturing enterprise can set its own prices according to seasons, regional variances and market situation within a range of plus or minus 15 percent. The median and standard price and the range of up-and-down fluctuation for carbamide and ammonium-nitrate produced by other enterprises will be set by the people's governments of each province, autonomous region, and municipality, by referring to the price level listed above and based on the local practical situation.

(3) For such varieties as ammonium acid hydrogen nitrate, ordinary superphosphate, compound fertilizer and potash fertilizer, etc., each provincial, autonomous region, and municipal people's government will set the median and standard price and degree of up-and-down fluctuation based on the market price and each locality's practical situation.

(4) For fertilizers that the State allocates to localities, the State Planning Commission will stipulate the allocation price based on the price of stocking goods, plus the comprehensive operational fee rates. The comprehensive operational fee rates for domestically-produced fertilizers that the China Agricultural Production Materials Corporation Group allocates to each province and autonomous region are: a maximum 4 percent storage fee (including the shipping charge) for goods which must be transferred through a warehouse; a maximum 1.5 percent storage fee (including interest) for goods which are not transferred through a warehouse. The State Planning Commission will set a price for imported fertilizers after it has conducted a separate review. For fertilizers allocated among provinces, autonomous regions and municipalities, the prices should be the same as for fertilizers allocated within a province. It is not permitted to implement two different types of prices within and outside a province (autonomous region, municipality).

(5) The people's government of each province, autonomous region and municipality will regulate fertilizer allocation price (below provincial level) and retail sales price by means of stipulating the comprehensive balance or profit rate in commercial links. In regions covering vast areas, with long shipping distances, provincial and autonomous regions' people's governments may stipulate the price.

(6) An agency may set the price for fertilizers imported through foreign trade departments. The standard agent's commission must adhere strictly to the relevant stipulations of the original State Pricing Bureau's "Note On the Issuance of Collection Measures for Import Agent Commissions" (1992 [jia zongzi 0116 4844 1316] No 463). The domestic allocation price (below provincial level) and retail sales price for imported fertilizers should be established by each province, autonomous region and municipality on the principle of these being priced the same as domestically-produced fertilizers of similar quality, getting a good price for good quality.

(7) We must strengthen our supervision and monitoring of fertilizer prices, trying hard to maintain a basic stability in these prices. When adjusting their prices within the stipulated price fluctuation degree and operational fee rates, the 16 fertilizer manufacturing enterprises like Nanjing Xixiashan and the China Agricultural Production Materials Corporation Group should report for the record to the State Planning Commission and departments in charge of business the reasons for adjusting their prices and the situation regarding cost

and price adjustment. The enterprises listed above should report semiannually to the State Planning Commission the data on their fertilizer price and cost, etc. Each locality should also refer to the above stipulations, and implement the system of keeping price adjustments on file as well as the system for reporting cost and price information to fertilizer production and operations enterprises.

### Measures To Improve Guizhou's Livestock Industry

94CE0606A Guiyang GUIZHOU RIBAO in Chinese  
16 Jun 94 p 2

[Article by Wang Anze (3769 1344 3419), Vice Chairman of the Guizhou Provincial People's Congress: "Raise the Commodity and Slaughter Rate To Develop Animal Husbandry"]

[Text] After 15 years of sustained growth, Guizhou's animal husbandry has developed from household sideline production in the past to a relatively independent pillar industry. In 1993, the total output value of the animal husbandry reached 6.233 billion yuan, an increase of 10.7-fold over that of 1978, calculated on the basis of comparable requirements. The total output of meat products reached 889,800.00 tons, poultry and eggs, 53,000.00 tons, and dairy products, 13,000 tons, showing substantial increases over 1978. The ratio of animal husbandry in agricultural output value increased from 16.9 percent in 1978 to 31 percent in 1993. Peasants' animal husbandry income has also increased markedly. In 1993 Guizhou peasants' per capita net income increased 73.5 yuan as compared to that of 1992. According to a survey of 2,585 households in 10 counties, cash income from sales of animal products alone reached 57 yuan. Practice shows that animal husbandry is an important way for the vast rural area of Guizhou Province to escape poverty and reach the goal of comfortable living.

However, we must also clearly realize that the problems of low commodity rate and poor economic returns do exist in the development of animal husbandry in Guizhou Province. Low commodity rate is mainly manifested as low slaughter rate and low quantity of commodities. In 1993, the slaughter rate of hogs in Guizhou Province was 64 percent as opposed to the national rate of 101 percent. The slaughter rate of cattle in Guizhou Province was only 6.1 percent in 1993 as opposed to the national rate of 11 percent with some provinces reaching as high as 28 percent. The slaughter rate of sheep in Guizhou Province was less than 50 percent in 1993. Low economic returns are manifested mainly as long breeding cycle. The average breeding cycle of hogs in China is about 6 months from the time of birth to the time of slaughter. According to a survey conducted by the agricultural bureau in 231 households in 9 counties, the breeding cycle of hogs in Guizhou Province is over 8 months, and the profit from the sale of each hog is only

about 70 yuan. The economic returns of cattle breeding is even worse. Most peasant households do not consider cattle as commodities. The working life of cattle is short. Natural breeding of cattle has caused the quality of breed to deteriorate. The rate of meat product of cattle is low. Investment in cattle is higher than output.

Due to the low commodity rate of animal husbandry production and inadequate attention to economic returns, the steady development of animal husbandry has been adversely affected and the growth rate has slowed in the past 2 years. The output value of animal husbandry increased on the average of 8.9 percent a year between 1979 and 1991 while the increase rate was only 2.2 percent in 1992 and 3.5 percent in 1993. The total meat output of Guizhou Province averaged an annual growth of 14.9 percent from 1978 to 1991 while the growth of 1992 was only 4.8 percent and that of 1993 only 3.9 percent. According to the statistics of statistic departments, the number of hogs and sheep slaughtered in the first quarter of 1994 declined by 3.37 percent and 6.1 percent respectively as compared to those of the corresponding period of 1993.

Main causes for these problems are: 1) Outdated thinking and poor understanding of commercial concept. Many peasant households raise aged hogs and keep them for years without paying attention to their economic returns. Most peasant households do not consider cattle as commodities. Instead, they use cattle mostly for plowing fields. 2) The variety of major animals is outdated, and the level of breed improvement and cross-breeding is fairly low. 3) Breeding method is backward, amoniation of stalks has not been popularized quickly, development and utilization of green feed is inadequate, nutritional arrangement is irrational. 4) Due to such factors as inadequate attention, the instability of grassroots organizations for epidemic disease prevention and control, and budget cuts, the work of epidemic disease prevention and control has been somewhat weakened. In 1993, the application of swine fever inoculation declined by 16 percentage points as compared to the previous year. In other words, over 4 million live hogs were not immunized, resulting in a substantial higher death rate of hogs as compared to the previous year. According to the investigation of the agricultural bureau in seven counties, the average number of death of hog per household is 0.43 head, a 10.5 percent death rate.

To ensure continuous and steady development of animal husbandry in Guizhou Province, we must concentrate on raising commodity and slaughter rates and do a good job in the following areas.

Update thinking. First of all, leaders at all levels must fully realize that animal husbandry is an important component of the rural economy and that we must push animal husbandry to a new level of development if we want to help the broad masses of peasants steadily escape poverty, increase income, and become rich, and help urban and rural residents improve their diet, enrich their

life, and raise their living standards. They should help the broad masses of peasants establish commodity and efficiency concepts and guide peasants in updating their thinking and vigorously developing the commodity production of animal husbandry in accordance with the demands of the market economy and local reality. In developing animal husbandry, areas where conditions permit should help peasants pursue the direction of specialization and the economy of scale. We should consider helping peasants develop the commodity production of animal husbandry and raising efficiency as an important content of rural work and strive to substantially increase the commodity rate and economic returns of animal husbandry in the next few years.

Relying on scientific and technological progress to improve variety. Guizhou Province has done a great deal of work and made great achievements in popularizing the improved breeds of livestock. Generally speaking, the breeding and popularization of improved breeds has lagged behind the demand of development of animal husbandry, the popularization of fine breeds and poultry has been slow, and the improved variety of cattle has not been popularized. We should pay attention to establishing and perfecting the work of popularizing improved breeds, combine the effort to import fine breeds of poultry with the effort to select local fine breeds, prevent unsupervised breeding, in-breeding, and deterioration of hogs and cattle, vigorously popularize improved breeds and breeding methods to increase economic returns.

Pay attention to the epidemic disease prevention and cure of livestock and poultry. In light of the current situation of somewhat weakened epidemic disease prevention and cure, we should further our understanding of the importance of epidemic disease prevention and cure work. The marked increase in the number of death from swine fever in 1993 was caused mainly by the lack of attention to this work. It is reported that many counties did not budget for epidemic control. In the first half of 1993, epidemic control funds were only half of what they used to be, and the average funding per head of livestock was only 3.5 fen. As a result, the coverage of swine fever control was much smaller, anthracnose occurrence increased, and the "No. 5 disease," which had been under control for many years, reoccurred in some areas and has begun to spread in some counties. Because of this, financial departments at all levels should make appropriate arrangements for necessary epidemic control funds, and ensure that such funds are used for this specific purpose so as to do a good job in animal disease prevention. We should strengthen the building of grassroots animal husbandry service system, stabilize the staff of civilian veterinarians, and sum up and publicize positive experience and measures for grassroots animal disease prevention to increase epidemic control ability.

Fully utilize Guizhou Province's advantages in natural resources to do a good job in fodder production. With a large population, limited land, and a low level of grain



production, Guizhou Province has a fairly prominent conflict between food grain and fodder, which restricts the development of animal husbandry. In addition, the cost of relying on crops to develop animal husbandry is high, adversely affecting the economic returns of the breeding industry. To increase the economic returns of the breeding industry, we must reduce reliance on grain in developing animal husbandry and follow the road of "animal husbandry that saves grain." Particular attention should be paid to making full use of the stalk resource. Guizhou Province has about 8 billion kilograms of rice and corn stalks. After ensiling and ammoniation, stalks of these crops become fine fodder for plant-eating domestic animals. With low technical requirements, this process can be easily mastered by the broad masses of people. We should change the two-crop (grain and cash crops) situation of the planting industry and make it into a three-crop (grain, cash crops, and feed) structure. Guizhou Province has a variety of green, succulent, and high-yield feed crops, which are easy to cultivate and have higher economic value as fodder when compared to grain crops. At the same time, we should vigorously develop the production of high-quality and low-cost compound feed. Guizhou Province has favorable conditions and material foundation for the development of the fodder industry. For instance, we have 350 million kilograms of rape seed cake, 300 to 350 million kilograms of distillers' grains, over 50 billion kilograms of herb and wood resources, which can be processed into fodder, and a large amount of chaff and roots. We also have abundant mineral resources which can be used as additive and trace element in fodder processing. Because of this, we need to speed up the development of the fodder industry. In addition, Guizhou Province also has over 3.7 million mu of useful water surface, a fairly large area of slack season rice paddies which can be utilized. These water surfaces should be fully utilized to grow high-yield water-grown feed crops such as duckweed, water gourd, and water peanut. We can also improve natural meadow and grass hills to increase animal-bearing capacity, thus further accelerating the development of animal husbandry.

#### Guizhou New Wheat Varieties

94CE0613B Guiyang GUIZHOU RIBAO in Chinese  
5 Jun 94, p 1

[Article by Liu Zhiqiang (0491 1807 1730): "Great Progress Achieved in Chinese Wheat Breeding"]

[Text] Guizhou Agricultural Academy professor Zhang Qingqin [1728 1987 0530] by cross-breeding tufted wheat with Italian hard-grain wheat, successfully bred "Guinong 21, 22," new strains of wheat that combine high yield, multiple resistance, and high quality. On 24 May, experts from such sectors as the Ministry of Agriculture and the Chinese Agricultural Science Academy inspected nearly 3,000 mu of Liberation Army Shaanxi Huashan Base experimental fields and unanimously recognized that the excellent condition of the two new

strains, especially their disease resistance, can be expected to play a huge part in lifting China's wheat production to a higher level.

It is understood that China's wheat production is currently faced with a major threat from such diseases as rust and powdery mildew. Since the 1970s, China has cultivated a large amount of good disease resistant varieties, but in the late 1980s, one after another, they lost their rust resistance, leading to the major spread of rust in 1990 and wheat losses reaching 2.5 billion kilograms. Several varieties also have not been resistant to powdery mildew, causing powdery mildew to often commonly occur and spread in vast wheat regions. So, cultivating a new good disease resistant variety as quickly as possible has been a problem urgently awaiting a solution from China's wheat breeders. But because of limited resistant raw materials, in the last few years breeding wheat varieties has all along been in an uphill state and progress has been very slow.

Wheat breeding expert Professor Zhang Qingqin has continued for a long time to devote energy to researching quality wheat variety sources. In 1987 he cross-bred tufted wheat with Italian hard-grain wheat and in 1990 he cultivated such new strains as Guinong Number 21 and Number 22. From the fall of 1990 to 1994, researchers such as Chinese Agricultural Science Academy Crop Protection Institute's Xie Shuixian [6200 3055 0103], with the support of such units as the Gansu Agricultural Science Academy, the Shaanxi Agricultural Science Academy, and the Liberation Army Lanzhou Military Region Shaanxi Huashan Base, conducted comprehensive testing and research on the two new strains for more than three years. Field test observations and laboratory research showed that the two varieties exhibited the characteristics of high yields, strong disease resistance, and excellent quality. The average yield per mu of the two varieties was 550 kilograms and the highest per mu yield was 650 kilograms.

#### Ramie Procurement Prices Increase

##### 1993 Procurement Price

94CE0671D Beijing ZHONGGUO FANGZHI BAO  
in Chinese 8 Jul 94 p 1

[Summary] Beginning in 1993, there were ramie shortages, and plants competed to procure ramie. In July and August 1993, the ramie procurement price exceeded 4 yuan per kilogram, by the end of 1993 the procurement price reached 9 yuan per kilogram. By the end of 1993 the price of ramie yarn had increased from 7,500 yuan per ton in July and August to 13,000 yuan. In March of 1994, the ramie procurement price in one county in Sichuan Province was 13,500 yuan per ton, and the price of ramie yarn exceeded 40,000 yuan per ton.

### Reasons for Increase

94CE0671E Chongqing XINAN JINGJI RIBAO  
in Chinese 10 Aug 94 p 2

[Summary] In the last half of 1993 ramie prices in Jiangxi Province increased from 2,800 yuan per ton to 4,000 yuan, and this year ramie prices have increased to 9,000 yuan. The price of ramie yarn has increased from 19,000 yuan per ton in the first half of 1993 to 32,000 yuan today. Major reasons for the price increases are:

Output has declined. In 1993 the national ramie area was 760,000 mu, gross output was 60,000 tons, and shortages reached 150 to 200 million kilograms. Ramie exports have increased. Cotton output declined in 1993, and demand for ramie has increased.

### National, Jiangsu Wheat Procurement Reported

#### National Wheat Procurement

94CE06120 Beijing JINGJI RIBAO in Chinese  
17 Jul 94 p 1

[Summary] As of 10 July, Beijing, Hebei, Shanxi, Jiangsu, Zhejiang, Anhui, Shandong, Henan, Hubei, Sichuan, Guizhou, Yunnan, and Shaanxi had put 15.358 billion kilograms of wheat in storage, of which 12.761 billion kilograms were fixed quota, fulfilling 91.7 percent of the plan.

#### Jiangsu Wheat Procurement

94CE0612X Nanjing XINHUA RIBAO in Chinese  
20 Jul 94 p 1

[Summary] As of 15 July, Jiangsu Province had procured 1.87 billion kilograms of wheat, exceeding the summer procurement plan by 175 million kilograms.

### Update on Shanghai Procurement Tasks

94CE0612L Beijing NONGMIN RIBAO in Chinese  
20 Jul 94 p 1

[Summary] As of 12 July, Shanghai had procured 65 million kilograms of rapeseeds, and 88 million kilograms of sanmai [wheat, barley, oats], fulfilling 77.6 percent and 72 percent respectively of the planned procurement task. Agricultural banks in Shanghai have allocated 277 million yuan to ensure that farmers are paid for their crops.

### Soybean Shortages Forecast for 1994, 1995

94CE0671C Beijing JINGJI CANKAO BAO in Chinese  
22 Jul 94 p 2

[Summary] According to estimates, in 1994 and 1995 the soybean area will be 115 million mu and 120 million mu respectively, gross output of soybeans will be 11,873,800 tons and 12,807,800 tons respectively, and soybean demand will be 15,037,500 tons and 16,472,300 tons respectively.

### Guizhou New Rapeseed Variety

94CE0613C Guiyang GUIZHOU RIBAO in Chinese  
28 Jun 94 p 1

[Article by Kuang Zongren (2568 1350 0088) and Yang Long (2799 7893): "Guizhou High Quality Rapeseed Research Achieves Success"]

[Text] Provincial rapeseed experts and government departments' recent on site test production and test harvest of more than 100,000 mu of "Double Low" (low erucic acid and low sulfur glucoside) rapeseed from such counties and cities as Suiyang, Sinan, and Shiqian indicate that the test production and distribution of the new rapeseed varieties, Youyan Number 5, Youyan Number Six, and the Za 101 Series developed by the provincial oil-bearing crops institute were successful.

This indicates that Guizhou's "double low" rapeseed research and production leads the nation.

"Double low" rapeseed research is a key scientific and technical problem in the state's Eighth Five-Year Plan. Rape produced from ordinary rapeseed contains 40-50 percent erucic acid, which is difficult for the human body to digest and the poisonous sulfur glucoside content in rapeseed cakes is as high as 20 percent and it cannot be directly used as feed. The World Health Organization has declared that rapeseed with an erucic acid content exceeding 5 percent should not enter the international market and sulfur glucoside should not be higher than 0.3 percent. Rapeseed quality has all along been a major problem vexing China's oil-bearing crop production and export. The state has made the "double low" a key science and technology problem in three successive five-year plans.

The provincial oil-bearing crop scientific research institute established on the Sinan embankment after ten years of difficulty, successfully developed Youyan Numbers 1-4 excellent new double low and single low varieties, receiving provincial scientific and technical progress awards. Youyan Number 2, the double low variety developed by Wang Tongqiang [3769 6639 1730], a young researcher at the institute, was one of six named national excellent rapeseed varieties and was extended to a total of more than 1 million mu throughout the country. Youyan Numbers 3 and 4, the new varieties developed under the direction of researcher Hou Guozuo [0186 0948 0146], was one of seven new rapeseed varieties nationally approved in 1992.

In 1992 the provincial Oil-bearing Crop Scientific Research Institute also successfully completed a key state Eighth 5-Year Plan project, developing Youyan Number 5, a new low erucic acid hybrid rapeseed variety. The project was the first of twelve Eighth Five-Year Plan key high quality rapeseed projects approved, completed two years ahead of plan.

Youyan Number 5 was directed by Hou Guozuo and used the nationally and internationally top level "cabbage-type rapeseed cell nucleus male sterility material"

developed by him as the mother and the national low erucic acid high quality rapeseed variety as the father. After limited artificial cross-breeding, successive summer propagation and proper season seeding developed the first successful hybrid. Its erucic acid content was 1-2 percent and the purity of the hybrid from investigating large area test harvest reached 96 percent and more. It grew neatly, with a long ear, and good structure. The comparative variety average experimental per mu yield was 153.1 kilograms and the regional average experimental per mu yield was 158.9 kilograms, a yield increase of 43.3 percent and 8 percent, respectively, compared to the Zayou Number 9 and Qinyou Number 2 varieties. The highest yield, 240 kilograms, was a 48.3 percent increase over Qianyou Number 9. Since 1992, the variety has been extended to a total of more than 600,000 mu and successfully test planted in several provinces in the Changjiang basin. Recently telegrams have come in one after the other seeking to purchase the variety.

In national core testing of oil-bearing crops and products, Youyan Number 6, the new "double low" conventional rapeseed variety that assistant researcher Wang Tongqiang directed the development of, had an erucic acid content lower than 1 percent and a sulfur glucoside content of 0.2 percent, conforming to international standards. In two successive years at sixteen experimental points throughout the province, all of the variety had an increased yield, with an average per mu yield of 139.7 kilograms, a 29.7 percent increased yield over comparable varieties. Experiments throughout the province produced an average per unit area yield of 139.9 kilograms, an average 12.5 percent increased yield over such comparable varieties as Qinyou Number 2 and Shuza Number 1. In October 1993, the variety passed the provincial level experimental harvest.

Youyan Number 6, with such outstanding characteristics as high yield, high quality, strong adaptability, and drought-resistant ripening, was welcomed by the farmers and its research was at the top level in the nation, better than the excellent variety, Youyan Number 2, developed by Wang Tongqiang himself. Sinan County party secretary Chen Jizhong told reporters that the variety's mature period drought resistance was from seven to ten days, helping farmers vying for water break fields and transplant seedlings. This year in the county they will expand the area planted, acting as a raw material base for county oil factories' production of high quality oil.

#### Sichuan Planned Late Autumn Grain Area

94CE0612T Chengdu SICHUAN RIBAO in Chinese  
11 Jul 94 p 1

[Summary] The planned late autumn grain area in Sichuan Province exceeds 19 million mu.

#### Xinjiang Crop Area for 1994

94CE0612Q Beijing NONGMIN RIBAO in Chinese  
30 Jul 94 p 1

[Summary] In 1994 the crop area in Xinjiang will total 40,336,100 mu, of which the grain area will be 19,222,700 mu, a decline of 2,260,100 mu from 1993, and only fulfills 75.36 percent of the guidance plan.

#### Heilongjiang Grain, Edible Oil Industry

94CE0658A Harbin HEILONGJIANG RIBAO  
in Chinese 10 Jul 94 p 6

[Article by Zhan Shengtian (3277 0524 3944), vice bureau chief of the provincial grain bureau: "Policy to Get to the Root of Development of the Grain Economy—Vigorously Developing the Grain and Edible Oil Industries"]

[Text] One of the "five extends" proposed by the provincial party committee and the provincial government is to extend the commercial grain base to an agricultural byproduct processing base. To effectively implement this strategic policy, we are concentrating on the provincial grain and edible oil and food industries. This main theme of how they are to be extended, what system will be used to extend them, and how that extension can be accelerated is a point for investigation and thought.

Heilongjiang's grain and edible oil industries have developed by leaps and bounds from small to large and from weak to strong, and have achieved historic progress. But with the intensification of the reform of the grain circulation system, in the grain economy's change from the state purchase and marketing monopoly period of the planned economic model to an open market economy, Heilongjiang's grain and edible oil industries are encountering unprecedented difficulties. In 1993 provincial grain and edible oil industries experienced a decline from normal harvest years of 55.3 percent, 21 percent, and 68 percent, respectively, in the processing of grain, soybeans, and feed. Profit taxes realized were 81.28 million yuan, a 60.7 percent decline from the previous year and a 66.9 percent decline from the highest year in history. Throughout the province, fifty-seven enterprises suffered losses and losses reached as high as 42.7 million yuan. Twenty-nine more enterprises suffered losses than in the previous year and losses increased by 23 million yuan, giving rise to a situation that makes people anxious and concerned.

The main factors forming this predicament for Heilongjiang's grain and edible oil industries are: low levels of resource exploitation and utilization, low competitiveness of products, backward operating systems, structures tending to be the same, low levels of duplication, and not converting resource advantages to commercial and economic advantages.



### **I. Low Resource Utilization Levels and Short Industry Chains**

Heilongjiang's current annual grain production capability is essentially stabilized at about 22.5 billion kilograms and every year there is about 11.5 billion kilograms of commodity grain. If the 4.5 billion kilograms used on provincial markets is deducted, there still is 7 billion kilograms of grain for outside the province and for export.

### **II. Slow Technological Updating and Low and Weak Product Competitiveness**

From 1989 to 1993 grain and edible oil industries throughout the province invested a total of 180 million yuan in updating technology. At this rate, provincial grain and edible oil industries would require about fifteen years to completely update technology, absolutely no way to meet the product competition situation that changes from day to day and month to month, because with numerous outstanding technical reform bills and few high-grade, precision, and advanced projects, the cycle throughout the province for developing new products from grain and oil resources is about five years.

### **III. Operating Mechanisms Are Closed and Production of Scale Operations Have Not Been Formed**

A prominent problem is that with the product economy thinking as fixed as ever, the orientation of product development cannot be determined by the needs of the market and combined production development operation enterprise groups led by a leading industry have not been formed and the potential of the overall operating mechanism has not been brought into play.

### **IV. A Serious Lack of Operating Funds Creating the Huge Waste of Idle Assets**

In normal years, provincial grain and edible oil industries will process 5 million tons of raw materials annually, generally requiring 3 billion yuan in operating funds, but provincial grain and edible oil industries only have 65.64 million yuan of their own operating funds, which only makes up 3.2 percent of the funds that they need. The strategy selected to vigorously develop Heilongjiang's grain and edible oil industries is to cast off the "embryo" of the planned economy and change to the "framework" of the market economy and accomplish the conversion from traditional grain industries to modern circulating industries as quickly as possible. The three industrial chains of overall planning, serial development, and prominent development are taking bean products, convenience foods, and refined foods as the key food industry chains; making such things as development of such extensive grain refining processes as graded flour, refined rice, and refined oil the main chains of finished grain industries; and the grain—feed—breeding industry chain. We should convert the resource potential to commercial advantage, economic

advantage, and profit advantage as quickly as possible. To do this we must stress doing the following our tasks well.

### **1) Weed Out Backward Products and Develop Strategic Products**

For rather overstocked standard rice and feed with a low market demand we should limit production, convert production, and stop production.

We should convert gradually in planned stages from the unstable structure of mainly utilizing direct processing of unprocessed food grains and crude oil to a growing structure of utilizing industrial products as raw materials. So, as regards grain processing, wheat processing should mainly develop graded flour, special-use flour, and intensely refined serial products. Paddy processing should mainly develop such products as rice that it is not necessary to wash, nutritious rice, refined white rice, and convenient rice, and introduce rice husk rinsing technology and use byproducts to raise grain vitamins and phytate calcium and develop the overall uses of the rice husks. Corn processing should mainly develop starch syrup, canned sweet corn, wood sugar, and wood sugar alcohol, and expand production of nonfat powdered corn. As regards feed processing, the emphasis should be on developing and producing pre-mixed feeds, concentrated condensed feeds, granulated feeds, milk substitute feeds, feed additives, starter feeds, feed extract supplements, and full price compound feed products leading the breeding industry toward developing specialized and intensive production. As regards food processing, Heilongjiang has a monopolistic advantage in the country in soybean and red bean resources. [Heilongjiang] makes up half or more of the national soybean production and about 5 percent of world production, and about 65 percent of national red bean production. Baoqing red beans have long been famous on the international market, especially the Japanese market. Food development should concentrate on soybean products and develop and produce such highly processed products as boxes of bean curd, soybean formed protein, separated protein, powdered phosphate, and purified oil, striving to make the overall quality of soybean products reach international standards to open up domestic and international markets. Red beans should mainly develop such things as red bean paste and red bean cakes. Developing such convenience foods as "Chef Kang" and such sophisticated foods as "lotus cakes" will cause the development of fast foods, inflated foods, green foods, and fresh foods to form a certain scale.

### **2) Increase Investment As Able and Actively Use Foreign Funds**

Where do investment funds come from? One way is to strive to raise them oneself by many means such as amassing the use of grain enterprise conversion fees, appropriately adjusting and simplifying the investment

orientation of construction fees, accelerating depreciation, raising funds from staff, and funds raised by enterprises themselves. In addition, by striving to do a good job of reducing bank loans to pay back historical debts and their scale, several hundred million yuan can be amassed and if it is used well, it can earn huge profits. The second way is to be adept at borrowing strengths and being adept at "borrowing" prosperity. We should extensively learn from the experience of coastal regions, use the steps to go up a floor, use others' advantages such as bonuses, talent, and sites to develop ourselves. We should create a relaxed atmosphere and be willing to concede profits to invite powerful and wealthy places or enterprises to build factories in the province, and we can use monopolistic resources that we have such as soybeans and red beans and we can invest resources to build factories in central cities and large coastal marketing regions. We should use advantages to offset disadvantages and use others' advantages and strong points to take the joint route and adopt joint brand, joint management, and joint profit methods such as jointly producing such brands as Chef Kang, Sun God, and Baby Ha to seize control of the market and use them to make up for our own weak points and inadequacies. We should borrow fruit to blossom, be good at studying and learning from the experiences and methods of those in the same trade and transplanting them to ourselves to obtain optimum results. The third way is to use foreign funds. The amount of foreign funds that Heilongjiang's grain system presently uses is small and the scale is small, only US\$63.15 million. If we want to remedy our shortcomings as quickly as possible, it is of critical importance to make good enterprise results, establish an unassailable position in competition, and make dynamic introductions. Dynamic introduction is still being able to continuously make use of the foreign mother company's newest technological achievements after the project has gone into production so that the product can constantly maintain its advanced standards and be internationally competitive. We should let strong, well-known, attractive enterprises go out and by forming joint ventures through grafting reorganization accelerate the conversion of enterprise operating mechanisms and adjustment of the product mix.

### 3) Implement Preferential Policies and Reasonable Overall Plans

The crux of vigorous development of Heilongjiang's grain and edible oil and food industries is in thinking, essentially in policy.

In the current period of initial conversion difficulties, it is necessary to give special support to four policies. The first is to fully strengthen and provide required operating funds. Learning from the experiences of other provinces, we should permit enterprises to take 1 percent from the total sales of their products to supplement circulating funds. At the same time, banks should prioritize loans, implement preferential interest, and provide sufficient spot loans for the 2 billion yuan in operating funds that

soybean oil extraction factories require annually. The second is that provincial, municipal, and county finance departments should permit grain and edible oil, food, and feed processing enterprises to implement a high limit depreciation rate and use all the depreciation compensation funds in updating technology. The third is to exempt newly developed extensively processed grain and edible oil, food, and feed products from value-added taxes before 1997 or rebate part of the previously levied value-added taxes. Until the tax system is reformed, grain and feed processing enterprises can continue to pay back the balance owed on technology updating loans before they pay new increased profit taxes. The fourth is that the historical policy debts that grain and edible oil industries created in the planned economy period should be cut off at the end of 1994 and handled individually, so that enterprises can truly become independent legal persons with the initiative in their own hands and self-managed and self-developed.

Currently Heilongjiang has about 750 million kilograms in idle soybean processing capabilities and about 2.5 billion kilograms in idle wheat processing capabilities. So, we should bear in mind the profound lesson from the planned economy period on losing macroeconomic control of the development of the grain and edible oil industry and the low level of duplication which created idle assets and wasted resources.

### Survey of Fujian Individual Grain Business

94C10658B Beijing ZHONGHUA DISAN CHANYE  
BAO in Chinese 14 Jul 94 p 2

[Article by Wang Weizhong (3769 3555 0022) and Wang Ziqiang (3769 5261 1730): "Fujian Individual Wholesale Grain Merchant Survey"]

[Text] From when they first appeared in 1984, Fujian's individual wholesale grain merchants grew rather rapidly. According to incomplete statistics from the provincial grain department, as of now, there are from 12,000 to 13,000 throughout the province. In 1993 after grain prices were completely deregulated, individual grain wholesalers' sales made up 60 to 70 percent of total provincial sales. The appearance of individual grain wholesalers gave rise to grain business rice markets and played an active part in respects such as opening up grain resources, balancing local grain totals, adjusting varieties, spurring the development of related service industries, and absorbing surplus rural labor. But in surveying the situation, the negative effects produced by the rapid inflation of the mainly individual wholesale grain merchant grain business rice market also cannot be overlooked.

### Not Assuming Any Social Responsibility

The individual wholesalers are getting stronger and stronger, but in periods of disastrous deficient harvests, they do not assume any responsibility. In Tingjiang on the outskirts of Fuzhou, there is a wholesaler who has

individual assets worth millions of yuan. In the grain price increases of last December alone, he earned more than 1 million yuan. The 169 individual wholesaler grain business rice market at Nananguan Bridge in Quanzhou City handles 1.4 million jin daily, and annual sales total more than 500 million jin. The annual grain business of another Fuzhou wholesaler is more than that of the provincial grain and edible oil trading company, the Fuzhou City grain and edible oil trading company, and the Beiqingyun company combined. But at the end of last year when the Quanzhou price of rice rose to 1.2 yuan per jin, it was only when the state grain department sold off a large quantity of grain, that the price was forced down to 1 yuan per jin.

#### **Violating Regulations, Forcing Up Prices, Rushing to Purchase**

Quite a few individual wholesalers have violated state regulations and gone to grain producing areas to rush to purchase grains. They have established purchasing points in more than ten provinces, rushing to purchase at prices 1 yuan per 100 jin higher than the state posted price. Moreover, they do not care about the quality. Some purchase [grain with] as much as 15 percent moisture content and some even purchase green shoots.

#### **Selling Old Covered With New**

Some individual wholesalers mix old grain into the new. Generally the ratio is 8:2. When the grain supply is tight, it is 7:3. Into every jin of peanut oil they mix palm oil or white oil to seek profit.

#### **Buying Up and Selling Out To Evade Taxes**

Some individual grain wholesalers can dig up 8,000 yuan to 10,000 yuan in "advantage fees," and obtain a railroad car. When they sell grain, they can supply the other party with a "commission." Some buy up revenue officials and force down their taxes. It is estimated that the tax revenue rate for individual wholesalers is only about 20 percent.

#### **Strengthening Administration Is of Great Urgency**

Individual wholesalers' share of the grain market is getting bigger and bigger. The consequences of a disaster occurring worry people. To strengthen administration we suggest adopting the following measures:

1. Reform the approval procedures to implement effective controls on individual wholesalers. In view of the fact that grain departments best understand the grain supply and demand situation, we suggest that the initial approval authority for individual grain wholesalers who want to start a business be given to grain departments and ultimate approval authority still return to the Industry and Commerce Administrative Management Department. As regards the situation in Fujian, of the 9,998 individual wholesale grain merchants in 1992, fewer than one third were licensed operations, one third were unlicensed operations, and another one third used

a retail license to do wholesale. So, it is necessary to conduct reinvestigations and issue new permits.

2. Require that individual grain wholesalers assume a certain amount of social responsibility. It is understood that in Hong Kong with more than 6 million people there are only twenty some government approved privately run grain wholesalers, and they are required to maintain reserves equal to three months' sales to prepare for emergency needs. If a spot check discovers that they do not meet this standard, their business license is suspended. We can learn from this method.

3. All departments should cooperate in strengthening administration. In strengthening administration of individual grain wholesalers, it also is necessary for relevant departments to be closely coordinated and strictly inspect and supervise. At the same time, we must give the required support to state grain departments to increase their ability to control grain markets.

#### **Shaanxi, Anhui Livestock Industry Develops**

##### **Shaanxi Livestock Industry**

94CE06711 Xian SHAANXI RIBAO in Chinese  
13 Aug 94 p 1

[Summary] In the first half of 1994, the number of cattle and sheep in stock in Shaanxi Province increased 5.3 percent and 9.7 percent respectively over the same period in 1993; the number of hogs removed from stock totaled 13,147,000, an 11.2 percent increase. Meat output totaled 318,500 tons, a 10.2 percent increase, and egg output totaled 146,000 tons, an 11.5 percent increase. According to a survey, farmers raising one dairy cow netted profits of 2,000 yuan, and 800 yuan from beef cattle. The number of households raising hogs increased by 93,000 over the same period in 1993.

##### **Anhui Hog Stocks**

94CE06711 Hefei ANHUI RIBAO in Chinese 3 Aug 94  
p 1

[Summary] In the first half of 1994, the number of hogs in stock in Anhui Province totaled 14,954,500, the number of sows in stock totaled 911,600, and 6,726,100 porkers were removed from stock, increases of 3.4 percent, 8.5 percent and 8 percent over the same period in 1993.

##### **Tax Rules on Cotton Imports**

94CE0628B Beijing ZHONGHUA DISAN CHANYE  
BAO in Chinese 20 Jun 94 p 7

[Article: "Possible Tax Refunds on Imported Cotton"]

[Text] Recently, the Ministry of Finance, the State Economic and Trade Commission, the State Administration of Taxation and the General Administration of Customs issued a joint notice which made it clear that tax refunds on imported cotton were possible. The notice



stated that the method employed would be to collect a value added tax (VAT) on the imported goods first, then return part of it later.

One, for all cotton imported by domestic enterprises in the State approved plan, the VAT can be refunded by producing relevant supporting receipts in accordance with regulation declaration procedures after the VAT has been declared and paid.

Two, the amount of tax to be refunded for importing the goods listed above is the value added tax amount issued and filled by customs in "Customs Using Special Payment Paper" which has been paid by importing work units.

Three, the imported goods tax should be refunded to enterprises who have applied for the refund, who have declared their imports and have paid the VAT on these imports. If the goods were imported jointly by more than two enterprises, there should be a unified tax refund procedure handled by the receiver of the goods in charge of declaring customs and paying import VAT, with relevant proof of the imported goods tax.

Four, work units that review and approve import commodity tax returns will handle the tax refund procedure on the principle of refunding the tax as soon after its collection as possible. Specifically, it should take no more than five working days for the tax payers' local customs to accept, handle, verify and report to higher levels the "Application Form for Refund of Taxes on Imported Goods" and related supporting documents. It should not take more than five working days for the

Central Government's examination and approval departments to examine, respond and handle the relevant tax refund procedure after receiving the initially examined documents forwarded by customs.

Five, refunded taxes on imported goods should be applied directly to reducing costs of imported goods and should not be retained as profits. If the General Administration of Customs and each of its attached branch bureaus and local customs offices find that refunded taxes have not been used to reduce the cost of goods or have been shifted to other uses, the refunded tax should be recovered promptly.

Six, if tax administrative organs and customs find that importing work units have defrauded on tax returns through fabrication, alteration, bribery or other illegal means, they should promptly recover the refunded tax and handle these cases in accordance with the "People's Republic of China Tax Collection Administrative Law." For those cases involving large amounts or serious situations, there should be severe penalties or these should be submitted to law enforcement authorities for investigation of criminal responsibility.

#### **Guangxi Sows Late, Hybrid Rice**

94CE0671H Nanning GUANGXI RIBAO in Chinese  
17 Jul 94 p 1

[Summary] As of 12 July, Guangxi had sown 31,010,600 kilograms of late rice seeds, of which 9,057,800 kilograms were hybrid rice, fulfilling 78.5 percent of the task. The late rice seeds sown decreased by 3,890,800 kilograms from the same period in 1993.

## Challenges Facing Civilian-Run Elementary, Middle Schools

94CM0356A Beijing ZHONGGUO JIAOYU BAO  
in Chinese 23 Jun 94 p 2

[Article by Zou Shenghua (6760 516B 5478): "Some Observations and Thoughts On the Problems Facing Civilian-Run Elementary and Middle Schools"]

[Excerpt] Civilian-run elementary and middle schools have come to the fore in recent years and have attracted much attention. They have become one of the hot points of education. In 1993, we studied civilian-run elementary and middle schools in some provinces and municipalities to explore specific problems. The following is a summary of our findings.

### I. Civilian-Run Middle and Elementary Schools' Present Situation

Based on incomplete data, up to 1993, there were nearly 2,000 civilian-run middle and elementary schools nationwide, with total enrollment of more than 200,000 students. They were widely scattered in all regions.

Under the leadership of the education departments, these civilian-run schools have a fair amount of autonomy. For example, they are free to hire their own school administrators and teachers, recruit their own students, determine their own school programs and curricula, and raise their own educational funding.

Based on the survey, civilian-run schools in China are still at the start-up stage, and the overall developmental trend is good and healthy. An absolute majority of these schools are receptive to the education departments' leadership and are in compliance with the party's and the state's educational guiding principles. However, some local schools still have many difficulties and problems which urgently need to be addressed and resolved by the relevant government departments at all levels.

### II. Operating Formats and Characteristics of Civilian-Run Middle and Elementary Schools

There are two types of civilian-run schools if we classify them by their funding channels: They are wholly civilian-run schools and government-subsidized civilian-run schools. The former are entirely funded by civilian groups or individuals; the latter are partially funded by civilian groups and individuals, but the education and other departments also give them financial and other forms of support.

These two types of schools share many common practices:

1. They both adopt the school principal responsibility system under the leadership of the school board: The middle and elementary school principals have full power and take full responsibility for the schools' operation. Efficiency is high, but the responsibility is grave.

2. They both adopt the teacher and school administrator employment system: this management system best mobilizes the teachers' and staff's enthusiasm. The schools pay good wages to good teachers and staff and may dismiss those who fail to perform their jobs at anytime. This smashes not only the "big pot" but also the "iron rice bowl."

3. They promote school reform and strive to be exceptional schools. To boost the schools' prestige and satisfy the parents and the students, most civilian-run schools try to get rid of old educational concepts and actively promote school reform and strive to be exceptional schools by improving educational quality. For example, some well-run schools put much emphasis on moral education and pay attention to developing the students' all-around quality. At the same time, they also emphasize foreign languages, computer training, and the arts.

But there are also some differences between the two types of schools:

According to the survey, wholly civilian-run middle and elementary schools fit the following descriptions: (a) Some schools have good operating conditions (especially living conditions), and they offer good education and good teaching and learning conditions, but their tuition is high. Since these schools satisfy the needs of the handful of local people who are among the first to get rich, they are very popular today. (b) Some schools' tuition is high, but the education standard and the teachers are average at best; they are unwilling to accept the education department's guidance, and there is a great discrepancy between their quality and what they claim in the advertisement, and as a result, many parents are disappointed. These schools are in danger of shutting down. (c) A handful of schools put up the banner of fostering a "new generation" but are deviating from educational guiding principles and are even diverting the high tuition they charge to other uses.

Most government-subsidized civilian-run schools take the initiative to rely on and accept the education departments' guidance. For example, the education bureaus of all districts in Shanghai Municipality have put the setting up of civilian-run schools in the local education development and reform plans. They give active help and support to those schools in everything from preparations to student recruitment, from teaching to administration, from school buildings to teaching facilities, from selecting school principals to assigning teachers and so on. They have made sure that the municipality's civilian-run middle and elementary schools are on track to function properly within a short period of time.

### III. The Problems and Difficulties Facing the Civilian-Run Middle and Elementary Schools

Civilian-run schools are facing the following major problems:

1. Ideological problem: Under the planned economic system, it is taken for granted that the state is responsible

for education; as a result, some people not only are not ready to accept civilian-run schools, they are even prejudiced against them. Moreover, compulsory education law stipulates that no tuition may be charged for compulsory education, which creates an impossible problem for civilian-run schools. This clash has perplexed many people.

2. Legislative problem: Although civilian-run schools have been around for several years, the pertinent laws and rules and regulations have never been introduced. In February 1993, the CPC Central Committee and the State Council issued the "National Program on Educational Reform and Development." It proposed a guiding principle to provide civilian-run schools with "active encouragement, vigorously support, correct guidance, and better management." The CPC Central Committee's "Decision on Issues Pertaining To the Development of a Socialist Market Economy" also suggested "changing the practice of government running all schools and creating a new system dominated by government-run schools while letting society play a part in running the schools." But because legislative work is lagging behind and other necessary measures are absent, the implementation of some guiding principles and policies has been adversely affected.

3. Administrative and evaluation problems: Under the current situation, many local education departments have many concerns about their administration of the civilian-run schools. Some are unwilling to do anything, and some do not know what to do and how to do it, and therefore there is no supervision and evaluation to speak of.

4. Social security problems: Civilian-run schools do not have to provide housing, medical care, and pension to the teachers and administrators they hire. This perhaps is their advantage over the public schools, but over time, if this kind of social security and welfare problem is not solved, young teachers will not be willing to teach in civilian-run schools, and this inevitably will undermine the proper composition of the contingent of teachers.

There are other serious problems in the civilian-run schools' development:

1. Insufficient funds and obstructed channels: It takes large sums of money to run a school. Currently, most civilian-run middle and elementary schools have difficulty raising enough money, and there are no appropriate policies to divert funds to those schools. As a result, most schools must charge tuition to pay for regular expenses; some are even running a deficit.

2. Poor operating conditions: Due to the lack of funds, many civilian-run schools are operating under simple and crude conditions. The schoolhouses are usually rented or borrowed, and apparatus and library facilities are lacking.

3. The age-structure of the contingent of teachers is unbalanced. There is a disproportionate number of older teachers and few young teachers. This will pose a serious problem in the long-run.

4. Students are lacking in quantity and quality: Due to ideological problems and high tuition, currently, most students and parents, especially students who are doing well academically, still prefer public schools. Their main goal is 'to get into the key public middle or elementary school' [passage omitted]

### Working Health Problems of Elderly in Countryside

94CM6356B Beijing ZHONGGUO SHEHUI BAO  
in Chinese 28 Jun 94 p 3

[Article Chen Yongqian (7115 3057 0467): "Old People's Health Problem Is a Serious Concern in Rural Areas"]

[Excerpts] [passage omitted] In the rural areas, at least half of the elderly have no concept of taking care of their own health; they are afflicted with all kinds of chronic diseases. One-third suffer from poor food sanitation and malnutrition problems, partly because of poverty and partly because of their lifelong frugal habits. Even more old people are perplexed by their dependence on their children for their livelihood and other family and social conflicts; they are depressed and are suffering from psychological problems. [passage omitted]

Chronic physical over-exertion and adverse living conditions caused by historical factors have led to certain kinds of chronic diseases when these people reach middle-age. Statistics show that heart-lung diseases, arthritis, and kyphosis and osteoporosis caused by calcium deficiency are the most common ailments plaguing the elderly in the rural areas. They refuse to stop over-exerting themselves physically in the early stages of their illness, and adding the lack of necessary labor protection and proper and prompt treatment, the diseases tend to worsen quickly. By the time they reach old age and their health deteriorates, they are already seriously ill. In fact, among the elderly in the countryside, many are still working even when they are sick, and many die soon after they quit working in the fields.

Thrift is a lifelong good habit among the elderly in the rural areas. But by the time these people reach old age, no matter how rich or poor, they are unwilling to spend money on food and drinks, and malnutrition is also a common problem among the elderly. Those without health care knowledge are still unwilling to waste fuel to boil water, spend money on toilet paper, or throw away food that have gone bad. They drink unboiled water, use bamboo scrapers instead of toilet paper, and eat spoiled food, and they end up with all kinds of diseases. When they catch cold, they are unwilling to spend money on doctors, and since they still work while they are sick, chronic bronchitis always gets worse. They are frugal and



are always thinking about their children and grandchildren. Their sons have to go to school, get married, find work, and build houses, and these eventually cost most of their life savings. Once the grandsons are born, they are overjoyed and are even more frugal, too willing to become their grandsons' "oxen and horses"—their slaves. The younger generation's "exploitation" of the elderly is no less common in the rural areas than in the cities. This is because the idea of keeping the family going from generation to generation is still deeply ingrained in the minds of many old people in the countryside.

To the elderly in the villages, spiritual life is a vacuum. For many reasons, the old people are uneducated, and they have simple pleasures. Their greatest pleasure is in working and making money. When their health deteriorates, or when they are too sick to work in the fields, they get depressed and succumb to all kinds of psychological problems. In the rural areas, few children can provide their aging parents with regular and sufficient financial support, and the children often have to take turns in providing for their aging parents who can no longer work. Conflicts among brothers and sisters-in-law are often focused on the old people, making them feel "unwanted." Living under these conditions, what spiritual support is there to speak of? Because of traditional concepts, few widow or widower in the rural areas ever remarry, and even if on rare occasions one wants to ignore worldly prejudices and seeks to get married again, one inevitably fails because of the children's opposition. The resulting depression is even more difficult to treat. [passage omitted]

### Classification of Bank Swindles

94CM0377C Beijing RENMIN GONG'AN BAO  
in Chinese 26 Jul 94 p 3

[Article by Du Deqing (2629 1795 3237), the Industrial and Commercial Bank, Jining City, Shandong Province: "Forms of Bank Fraud and Precautions Against Such"]

[Excerpts] According to the special characteristics of bank fraud as it is presently being committed, it appears mostly in one of the following forms:

Fraud by counterfeit currency. This shows up as a fairly prominent problem in the course of money circulation. As to the origin of counterfeit currency, some is smuggled in from abroad, and some is produced domestically by lawless elements. Counterfeit money is essentially all of 100 yuan and 50 yuan denominations. As to the amount of counterfeit currency brought into circulation, statistics by the industrial and commercial bank of a certain city say that they take in around 200 specimens every month, amounting to about 10,000 yuan. Fraud by counterfeit money is committed in a variety of forms and methods. Some counterfeiters hand the counterfeit money that they have made in "wholesale transactions" to people who are out to make big profits, and

they, in turn, spread it out among a third and then a fourth group of people. This is how it gets from the "wholesaler" into the hands of the consumers. The targets for these transfers are mainly the rural areas or remote borderlands. Recently, a peasant of a certain village sold a cow and was paid nine 100-yuan bank notes, but when he wanted to change them into smaller denominations at the credit cooperative, he was told that all 900 yuan bills were fake. People with counterfeit money will frequently adopt the method of disposing of it by dim light, because it will then be difficult to recognize it as fake, and the fraud can then be easily pulled off.

Fraud by means of checks. This fraud is usually committed in one town and one place, and limited to a certain range, because of the special check clearing system. With the development of the market economy, more and more simplified and easily applied methods of check clearing are used, and a small number of lawless elements misuse the trust on the part of banks to wantonly take advantage of loopholes in the check clearing system. At a large shopping center of a certain city, a customer used checks to pay for his purchases and left behind a credit of over 1.6 million yuan that could not be recovered. When the shopping center wanted to cash the check, the bank had no such account at all from which to make payment. This lawless person had used a "rubber check" to fraudulently obtain goods. Cases where it is ultimately not even possible to find the debtor are even more frequent, and two-thirds of pigeonholed checks held by merchants are of this kind. Check fraud cases are continuously increasing and cause a serious decline in credit through check settlement.

Fraud by means of drafts. Generally speaking, in these cases of fraud the minimal amounts are already high and the sums involved quite substantial. The major specialty of this type of fraud is that false drafts are made out which are then confused with real ones. One manufacturing enterprise in a certain city received two bank drafts, one for 150,000 yuan and one for 300,000 yuan, for goods sold, but discovered at the bank that the drafts were fake. As a result the enterprise suffered a loss of 450,000 yuan. Some drafts are purposely made out wrong or use mysterious signatures, adding extra reasons for having them returned unpaid, but successfully cheating the other party out of goods and causing huge losses.

Fraud by means of the "three documents," which are: a bank letter of guarantee, a document of agreement, and a letter of intent. All three documents are indicative of bank credit and have certain legal validity. Some lawless persons will use these types of documents, indicating bank credit, for fraudulent activities. In the course of their business activities, some enterprises or companies will pretend to have these "three documents" from the bank, and will deceive the other party into placing an investment, provide materials, or conclude contracts, or

fraudulently pretend to have the three documents from the bank during business negotiations and thereby fraudulently obtain credit. This does not only happen between some domestic enterprises, but some enterprises do so in negotiations with foreign firms to fraudulently get agreements with the foreign firms based on credit. The People's Bank and all specialized banks have now been alerted and are watching out for this type of crime of using bank credit documents to commit fraud.

Fraud by means of deposits. Since the start of reform and opening up, this type of fraud occurs often. Its method is generally that it is falsely asserted that a certain person, an Overseas Chinese from a certain country, is a millionaire who has a huge bank account in a certain city of a certain province. His condition [for some deal] is that a certain service charge has to be paid in advance, but once the service charge has been delivered, the account has vanished without a trace.

**Profile of Chengdu MR Commander Li Jiulong**

94CM0363A Hong Kong KUANG-CHIAO CHING  
[WIDE ANGLE] in Chinese No 262, 16 Jul 94 pp 56-59

[Article by Li Zhongluo (2621 0022 3157): "Chengdu Military Regional Commander Li Jiulong"]

[Text] Li Jiulong: 11th Commander of Chengdu Military Region

Li Jiulong is the 11th Commander of the Chengdu Military Region, which was formerly the Southwest Military Region.

On 22 February 1950, the leading organ of the 2nd Field Army and a part of the Southwest Military Region which led the 18th Army Group to enter Sichuan merged in Chongqing to become the Southwest Military Region. On 1 May 1955, the designation of the Southwest Military Region was abolished. The five provincial military districts in Sichuan, Yunnan, Guizhou, Tibet and Xikang became the Chengdu, Kunming and Tibet military regions. At that time, the Chengdu Military Region was in command of the Sichuan and Xikang military districts and a general public security group with He Bingyan as its commander, Li Jingquan as its political commissar, Li Wenqing and He Zhengwen as its deputy commanders, Yan Hongyan and Guo Linxiang as its deputy commissars, Wen Xianxing and Qu Zhaoli as its deputy chiefs of staff and Yu Dasheng as the director of its political department. In December 1969, the Tibet Military Region was turned into a provincial-level military district and placed under the command of the Chengdu Military Region. On 30 August 1985, the Kunming Military Region was abolished; and the two provincial military districts in Yunnan and Guizhou and the relevant troops originally under its command were placed under the command of the Chengdu Military Region. Thus the Chengdu Military Region became a large one and covered a vast area.

The first commander of the Chengdu Military Region was He Bingyan, a young general who started his career as one of "Little Red Ghosts." He was seriously injured during the Long March and lost his right arm. When he died in Chengdu in 1960, he was only 47 years of age. Hence, seven of the nine commanders of the Chengdu Military Region were veteran members of the Red Army. They were Huang Xinting (August 1960 - March 1967), Liang Xingchu (March 1967 - July 1973), Qin Jiwei (July 1973 - October 1975), Liu Xingyuan (August 1975 - September 1977), Wu Kehua (September 1977 - January 1980), You Taizhong (January 1980 - October 1982) and Wang Chenghan (October 1982 - June 1985). Fu Quanyou (June 1985 - May 1990) and Zhang Taiheng (May 1990 - August 1991) who became the commander of the Chengdu Military Region after the mid-80's were soldiers who joined the army during the early stage of the Third Civil War. However, Gen. Li Jiulong, the current Commander of the Chengdu Military Region, was a

fighter of the Eighth Route Army who had enlisted on the eve of the final victory of the War of Resistance Against Japan.

**Born in Fengrun County, Hebei Province, Li Jiulong Joined Eighth Route Army on the Eve of Victory of the War of Resistance Against Japan**

Li Jiulong was born in a peasant's family in Fengrun County, Hebei Province. As early as in the decade-long civil war, CPC organizations were set up in Fengrun County located in the east of Hebei Province, and started the peasants' movement. After the "18 September Incident," the Beijing Municipal CPC Committee had dispatched Feng Jiping and Li Zhaolin to the East Hebei District to wage armed struggles against Japan. After the War of Resistance Against Japan broke out, the CPC North China Bureau and the Hebei Provincial CPC Committee had sent out Li Yunchang, Hu Xikui and Li Chuli and Red Army cadres Li Runmin, Kong Qinglong and others to go to east Hebei to establish the CPC East Hebei and Rehe Special Committee and the CPC East Beijing Special Committee. The East Hebei Military Base Against Japan was established between autumn and winter in 1940 after the Eighth Route Army boldly entered the area. By the end of 1943, the East Hebei Military Base Against Japan had covered 22 counties with a total population of 3.63 million people. The Eighth Route Army there was in command of three regiments, nine detachments and seven county-level guerilla units totaling 15,000 soldiers.

**Fighting Bravely, Jiulong Rendered Outstanding Military Services Four Times and Won Minor Meritorious Services Five Times**

Li Jiulong joined the Eighth Route Army in August 1945, and participated in the major counter-offense against Japanese troops and in various battles to expand the liberated areas. He joined the CPC in December 1945.

The civil war between the Kuomintang and the CPC broke out in an overall manner in June 1946. The Eighth Route Army unit to which Li Jiulong belonged was the 13th Independent Brigade of the Rehe Military District under the Shanxi-Chahaer-Hebei Military Region (Brigade Commander Zhou Renjie and Political Commissar Tan Guohan). In November 1946, formations of the Shanxi-Chahaer-Hebei Military Region was readjusted. The Rehe Military District and the troops north of the Beijing-Suiyuan Railway in the Hebei-Chahaer Military District merged to form the Hebei-Rehe-Chahaer Military Region (Commander Duan Suquan and Political Commissar Liu Daosheng). In order to further support the Chinese Communist armed forces in Northeast China, Nie Rongzhen reassigned the three independent brigades originally under the command of the Hebei-Rehe-Chahaer Military Region to the Northeast China Democratic Joint Armed Forces. The 13th Independent Brigade was renamed to the 22d Division (Division



Commander Wu Lie and Political Commissar Chen Renqi) of the 8th Column (Commander Huang Yongsheng and Political Commissar Liu Daosheng) of the Northeast China Democratic Joint Armed Forces (renamed to Northeast China Field Army in September 1948). Li Jiulong successively served as a squad leader, deputy platoon leader and a platoon leader of the 22d Division, and participated in the major autumn and winter offensives in Northeast China in 1947 and the Liaoxi-Shenyang Campaign (between September and November 1948).

**Li Participated in Liaoxi-Shenyang, Beijing-Tianjin, Yangtze River-Crossing, Hengyang-Baoqing and Guangxi Campaigns and Won Honorable Title of Fourth Field Army Combat Hero**

The 8th Column of the Northeast Field Army was renamed to 45th Corps and the 22d Division was renamed to 133rd Division (Division Commander Zhang Wanchun and Political Commissar Xie Ming) of the 45th Corps. Li Jiulong was a company commander at that time. He participated in the Beijing-Tianjin Campaign (between November 1948 and January 1949), the Yangtze River crossing campaign, the Hengyang-Baoqing Campaign (between September and October 1949) and the Guangxi Campaign. Demonstrating great courage and resourcefulness, he rendered outstanding military services four times, won minor meritorious services on five occasions, and was awarded the honorable title of the Fourth Field Army Combat Hero. He was promoted to deputy battalion commander and the director of the battalion's operation section.

**Fighting in Korea, Li Was Appointed Deputy Regiment Commander of 46th Corps**

Since the founding of the Chinese Communist state, Li Jiulong became a battalion commander of the 133rd Division of the PLA 45th Corps. Stationed in Guangxi, he participated in battles to suppress bandits. In August 1952, the 133rd Division of the 45th Corps was transferred to become an unit under the command of the 46th Corps. On 15 September 1952, Li Jiulong participated in the Korean War with the army. He served as a deputy regiment commander and the head of the reconnaissance section of the division headquarters of the 133rd Division (Division Commander Wang Zhendong and Political Commissar Jiang Yi) of the 46th Corps (with Xiao Quanfu as Corps Commander, Wu Baoshan as Political Commissar, Zeng Yongya as Deputy Corps Commander, Zhang Xiuchuan as Deputy Political Commissar and Director of the Political Department and Zhang Wanchun as Chief of Staff); and participated in the 1953 summer offensive campaign. In launching an offensive against the north side of the hill in Xiaowuxian, about 9 km north of Gaolangpuli on 2 May 1953, the three platoons of the 397th Regiment of the 133rd Division wiped out the 3rd company and a part of the 1st and 2d companies of the Canadian 25th Brigade under the UN Command and a part of a reinforce unit totaling

more than 200 men. In the battle of assault in Pingcun South Hill about 4 km north of Gaolangpuli on 2 May 1953, the 5th Company of the 339th Regiment of the 133rd Division once again wiped out all the defending enemy—one company, three platoons and two engineer squads of the Duke Wellington Regiment of the British 29th Brigade under the UN Command. It also killed, wounded and captured 181 enemy soldiers. Wang Zhendong, Commander of the 133rd Division, won a Korean Medal of Freedom and Independence, Second Class. Both Wang Zhendong and Li Jiulong are natives of Hebei Province. During the War of Resistance Against Japan, Wang Zhendong had fought for a long time in the East Hebei Military District under the command of the Eighth Route Army. He was the commander of the 13th Regiment of the army's main strength in the East Hebei Military District. When the Northeast China 8th Column was renamed the 45th Corps of the Fourth Field Army in 1949, Wang Zhendong was the Chief of Staff of the 133rd Division of the 45th Corps.

**New Achievements in Suppressing Rebellion in Tibet and in Battle of Self-Defense Along Sino-Indian Border**

The Korean War stopped in July 1953. The 46th Corps of the Chinese Volunteer Army returned to China in October 1955. Later, Wang Zhendong had successively served as a division commander and Chief of Staff and deputy commander of the PLA 46th Corps and the deputy commander and Chief of Staff of the 54th Corps. He was promoted from a senior colonel to the rank of major general. He died in 1986. Before he died he was the deputy commander of the Xinjiang Production and Construction Corps.

After Li Jiulong returned to China, he was a regiment commander of the 133rd Division of the PLA 46th Corps under Wang Zhendong. His rank was a major at that time. He won a Medal of Liberation, Third Class, in 1957. After 1958, Li Jiulong became the commander of an artillery regiment under the direct command of the PLA 54th Corps. He was promoted to the rank of Lieutenant Colonel in 1961. Later he successively served as deputy division commander, chief of staff and commander of the 134th Division and the deputy commander and commander of the 54th Corps.

The original 45th Corps and the 130th Division of the 44th Corps merged in October 1952 to become the 54th Army Corps. The 45th Corps was originally the 8th Column of the Northeast China Field Army. It was formerly a guards regiment of the Chinese Soviet Central Government in Jiangxi established in 1933. Later it became the Red Army 9th Army Group. It was renamed as the Red 33rd Corps during the Long March. During the early stage of the War of Resistance Against Japan, it was reorganized to become the 718th Regiment of the 359th Brigade of the Eighth Route Army 120th Division and later reorganized once again to become the First Garrison Brigade. In the early stage of the War of Liberation, it moved to Northeast China and later

became the Rehe-Liaoning Column. The 54th Corps had the 130th Division, the 134th Division and the 135th Division under its command. It was placed under the command of the 20th Army Group in May 1953 after it participated in the Korean War. In August 1958, the 54th Corps withdrew from North Korea and returned to China. The designation of the 20th Army Group was abolished in October 1958. The 21st, 54th, 60th, 67th and 68th corps originally under its command were placed under the leadership of various relevant major military regions. At that time, the 54th Corps was placed under the command of the Chengdu Military Region. In the Spring of 1959, the 54th Corps participated in the campaign to suppress the rebellion in Tibet. Between October and November 1962, it again participated in the battle of counterattack along the Sino-Indian border.

#### **Li Replaced Han Huaizhi as 54th Corps Commander**

Ding Sheng, Wu Ruishan, Wei Tongtai, Han Huaizhi and others had successively served as the commander of the 54th Corps. Both Ding Sheng and Wu Ruishan were veteran Red Army members who joined the army during the decade-long civil war. Wei Tongtai and Han Huaizhi were members of the old Eighth Route Army who had enlisted during the early stage of the War of Resistance Against Japan. Later Wei Tongtai served as the deputy commander of the Kunming Military Region and Deputy Director of the Commission of Science, Technology and Industry for National Defense. Han Huaizhi joined the army after the "7 July Incident" in 1937. He was only 15 years old at that time. Both he and Li Jiulong are natives of Hebei Province. When Li Jiulong served as a company commander and a deputy battalion commander of the 133rd Division of the 45th Corps in 1949, Han Huaizhi served as a deputy regiment commander and later a regiment commander of the 133d Division. After the founding of the Chinese Communist state, Han Huaizhi assumed the post of the president of the school of speeded-up language program of the 45th Corps. In August 1952, Li Jiulong was transferred to the 46th Corps together with the 133d Division. Two months later, the two remaining divisions of the 45th Corps and the 130th Division of the 44th Corps merged to become the 54th Corps. Han Huaizhi was appointed deputy commander of the 130th Division of the 54th Corps, Chief of Staff and First Deputy Commander and Commander of the 54th Corps, and the deputy Chief of Staff of the Wuhan Military Region. He was awarded the rank of a colonel in 1955 and promoted to senior colonel in 1962. During this period, he once again became Li Jiulong's superior. Later in the early 80's, Han Huaizhi was promoted to Director of the Operation Department of the PLA General Staff Headquarters and later Assistant Chiefs-of-General Staff. When Li Jiulong replaced Han to assume the command of the 54th Corps, he was seven years younger than Han.

#### **Li Became Jinan Military Region Commander in 1985**

Deng Xiaoping reduced the size of China's armed forces by one million in June 1985. The 11 major military

regions were merged into seven major military regions. Han Huaizhi was promoted to Deputy Chiefs-of-General Staff and Chairman of the Physical Culture and Sports Commission of the PLA. Li Jiulong was also promoted to Commander of the Jinan Military Region and Deputy Secretary of the party committee of the military region. At the national party congress held in September 1985, Li Jiulong was elected a member of the 12th CPC Central Committee. At the 13th National CPC Congress, Li Jiulong was elected a member of the 13th CPC Central Committee. When the Chinese Communists restored the military ranking system in September 1988, both Li Jiulong and Han Huaizhi were awarded the rank of lieutenant general. After the "4 June" storm, Li Jiulong was transferred to Beijing to serve as the First Deputy Director of the PLA General Logistics Department in April 1990. In autumn 1991, Li Jiulong replaced Gen. Zhang Taiheng to become Commander and Party Committee Deputy Secretary of the Chengdu Military Region. At the 14th National CPC Congress held in October 1992, Li Jiulong was elected a member of the 14th Central CPC Committee.

#### **Focus on Guangzhou MR Rapid-Reaction Unit**

94CM0376A *Guangzhou NANFANG RIBAO in Chinese*  
21 Jul 94 pp 1, 5

[Article by Ma Lihua (7456 4539 5478), Li Bosong (2621 2672 2646) and Guo Yan (6753 1693) titled: "A Crack Division, Report on a Certain Rapid Reaction Unit of the Guangzhou Military Region"]

[Text] In order to consolidate the national defense, in accordance with the requirements of modern combat, China's military has its own special rapid reaction units. These have emerged in the great tide of reform and opening. Through several seasons of arduous tempering, these forces have already become crack divisions that are especially solid politically, particularly competent militarily, and especially highly disciplined. To the outside they open up a window on the image of China's powerful military culture, while internally they are a model for strengthening the all around development of units.

Recently, we visited a rapid reaction unit, and saw with our own eyes the graceful combat bearing of such a unit.

#### **Military Prowess on the Southern Border**

"Bang!" Three green colored signal flares rose skyward. A "Red Army" helicopter rose towards the vast canopy of the heavens, and in the twinkling of an eye, soldiers cast themselves into the air in full battle regalia. One by one silvery parachutes quietly draw near to the "Blue Army" site more than 10 km away. After the floating landing, they rapidly close in on the control tower, bare-handedly following along water pipes, they clamber up the corner wall to the tower top, vying with the "Blue Army" in a struggle to occupy the navigation tower, and seize the radar warning system. At the same time, two

"Red Army" helicopters approach the airfield and rapidly close in on the ground, and dozens of assault troops pour out of the helicopters' passenger compartments, and using various types of very powerful firearms destroy key airport installations, placing explosives at crucial positions. After speedily completing its mission, the "Red Army" fighters attack and then retreat, clambering up a rope ladder into the helicopters hovering overhead. Flying away from the scene, they detonate remote controlled cluster charges well laid in advance, leaving the "Blue Army" hangars and control tower engulfed in a sea of flame.

Midnight, the island landing and reconnaissance operation codenamed "Operation Zero Point" has begun. It is pitch dark, and fierce waves are roaring. The "Red Army" squad responsible for the reconnaissance mission discovers a "Blue Army" transport ship on the sea, and the assault ship speeds forward; like lizards they clamber onto the deck, and after a fierce struggle they seize and occupy the transport ship, and use this vessel to deliver troops quickly to enter the target area, then, swimming 4000 meters in full battle gear, under the support of rumbling artillery, with one fell swoop they attack and occupy the "Blue Army" island.

This combat exercise, with scene after scene of soul-stirring action, made us gasp in admiration. The rapid reaction unit forces are fierce tigers on land, flood dragons at sea, and eagles in the sky; surely they live up to their reputation!

The officers and soldiers of this unit are extraordinarily talented. They all can use various types of weapons, and more than half are capable of operating various types of light and heavy artillery, and can also drive armored vehicles, reconnaissance vehicles, and motorcycles. Some 90 percent of the officers and soldiers have mastered low-altitude parachute jumping, and have long-distance swimming abilities, and many can wrestle one on ten, climb tall storied buildings as if walking on level ground. Deputy Battalion Commander Jiang Chun [5592 2504] fires true from a 100 meters, staff officer Yu Qihua [0827 4428 5478] commands troops in setting a record with a 700 m ultra-low altitude parachute jump, while squad leader Liang Tanbiao [2733 1086 1753] drives cars, and is also able to drive them on an iron rail, and master of military accomplishments Liang Jianhong [2733 1696 1347] can take blows of 100 kilograms on any muscle.

These crack soldiers cooperate as a colony, each having his strong points, breaking all enemy resistance. This year in the spring transport period, this unit received orders to maintain public security and order at the Guangzhou train station. In less than a week, they had wiped out gangs of ruffians who had long been committing crimes, and lawbreaking elements were panic-stricken at the news.

### The Cutting Edge Emerges From Tempering

Outstanding combat ability is cast through blood and sweat, and the officers and men of this unit have undergone unimaginably difficult hard tempering.

The unit's training spans over 100 subjects, including reconnaissance, demolition, parachute jumping, multiple capabilities in shooting, vehicle driving, and wrestling combat. The training curriculum is multifaceted in content, the standards rigid, the intensity great, and throughout the military is second to none.

For instructors they have the most outstanding drillmasters in the whole military, and national martial arts champions, and the training requirements are particularly strict, each move each form requires its standard use. For training in hand to hand fighting and wrestling, they handle a dagger which is sharpened to an unparalleled degree, and in an intense resistance exercise, if they are not the least bit careful, it is possible to be stabbed and wounded. But they believe that it is a genuine skill that is paid for with the flowing of blood.

"A soldier without a scar on his body, is not a soldier of the rapid response unit. We can see that the hands of the officers and men of this unit are different from those of normal people, on their palms, and backs of their hands they all have thick calluses, caused by the rubbing involved in practicing the "iron sand palm." On their hands are full of scars, these the result of scratch injuries from shards of broken glass bottles; some of the men have a small patch on their scalps where no hair will grow, the result of losses in training resisting polishing.

The unit's leader Zhang Wengu [7022 2429 6253] provided an introduction, noting that the soldiers are in class eight hours every day, and their bodies can absorb quite a lot. Time outside of class also requires completion of a 5 kilometer cross-country runs, carrying weight while squatting down and beating sand bags, and pole climbing training items.

The amount of activity is sufficiently great, and the soldiers also conscientiously augment the training intensity. According to stipulations, there are five exercises on the horizontal and parallel bars, but they do eight exercises. Some of the men on the horizontal bar can do more than 100 big circles. Push-ups are normally done with palms on the ground, but they do them using the fingers, and using the knuckles on the ground, and do them with one arm.

One soldier told us that when they practice parachute jumping, they persevere for three hours doing leaving the plane postures once, and the floor boards are wet with sweat; the level ground spring action continues jumping for 2 hours, and once on the ground, they trudge out of the hole. When practicing folding the parachute, over the course of half a month, every day they repeat opening the parachute, folding the parachute—it is both laborious and dull, and the soldiers are scrupulous about every



notes to the XINHUA News Agency and the Hong Kong government. Therefore, we also pay much attention to the question of linkage.

**Question:** What was the XINHUA News Agency's reaction to the HKACE?

**Answer:** Neither being in opposition nor being particularly supportive. The Hong Kong government's attitude was similar.

**Question:** Is there a worry about how the Chinese Communists will handle your foreign background?

**Answer:** I have never been afraid of this. The objective reality is that Hong Kong now has several hundreds of thousands of expatriates who hold foreign passports. And Hong Kong, which has been a British colony for more than 100 years, has a certain number of Britons and other foreigners who have settled down here. This is precisely Hong Kong's distinguishing feature—the essence of a good combination of Chinese and Western elements—and it is worthy of pride.

**Question:** Are you afraid that people will think you are trimming your sails?

**Answer:** If we were a major party there could be a need to trim our sails, because we could be the faction in power. But, frankly speaking, we will not become the mainstream in the Legislative Council, will not be the biggest royalist party or opposition party. Objective reality affirms that we cannot reach this point in a little over

**Question:** Many political parties feel that in the past there understanding of the mainland was inadequate. Now they want "to make up a missed lesson." What do you think is the degree of your understanding?

**Answer:** I estimate that our understanding of the Chinese mainland is quite high, and I myself go into the interior on a regular basis. As early as 1992, before Mrs Thatcher went to Beijing, I took part in a delegation of Hong Kong's legal circles that visited Beijing. The delegation members included: Li Chu-ming [2621 2691 6900], Liao Yao-chu [1675 3852 3796], Li Kuo-neng [2621 0948 5174], Ch'en Tzu-chun [7115 1311 6874], and Chien sung-nien [4675 2646 1628].

**Question:** Does the HKACE comment on mainland affairs?

**Answer:** We do comment on the mainland's internal affairs. This is because we implement the general principle enunciated by Jiang Zemin "rive water does not contaminate well water"—do not interfere with one another. We think that after 1997 one of Hong Kong's biggest secret worries will be how to avoid domestic political activity's influence on Hong Kong. If we don't want the Chinese to influence us, then we first must not influence them. The foundation stone of "one country, two systems" is noninterference with one another. Therefore, a Hong Kong political party should not talk about the mainland's political affairs. If it does not do so, success cannot be guaranteed by the chances for success will be fairly high. It seems that many many political organizations in Hong Kong, and even the society as a

know clearly that, in this political framework, in the future they will be unable to become the party in power and that they will only play the role of putting pressure on administrative authorities. In addition, the transition period is fairly long, and Hong Kong will not tend to become independent but will only change from a colonial political system to a local administrative structure. Therefore, it will only suffer a few hits, and there will not, because disputes become too heated, be hits against the framework that it cannot bear. [passage omitted]

Huang Shao-lin obviously believes in the steady style of "following in order and advancing step by step," and he hopes the political system will not develop too rapidly. He thinks that once one becomes careless and has too high expectations, and conflicts become too sharp, there could be caused a situation in which the framework, which is gradually taking shape, cannot operate and then problems will arise.

Then, what is the situation in Hong Kong now? Huang Shao-lin sees some dangers. In the past China and Britain headed in the direction of making a smooth

political status, and there should appear a large-scale political party with a well-disciplined organization and a strong ideology. Both freedom parties and democratic parties are, in reality, political alliances.

All alliances want to expand. Their internal organization must be loose, because, although their social backgrounds are basically similar, they have their differences.

Huang Shao-lun reckons that in Hong Kong's future there will be a development in the direction of political organizations' forming alliances, with the degree of fame, and not the political platform, as the appeal. This is unavoidable, because the most a political party can do is participate in legislative procedures and be a legal opposition faction that is a check and balance on the government. Therefore, its political prospects are limited, and a powerful political party cannot appear. But Huang Shao-lun thinks this is a good thing, because if a powerful political party does not appear, for a time there will be no conflict with the Chinese Communists, and this will be beneficial for Hong Kong. [passage omitted]

Looking forward to the future, Huang Shao-lun sees

"dragon head" leadership; and, as in the economy, in politics there is competition between many groups. Huang Shao-lun said that there are many hindrances to the participation in government and political affairs by Hong Kong's industrial and commercial circles, and they will not exert too much effort or personally support a certain political party in order to avoid provoking, because of their candor, aversion in their adversaries.

Although there seems to be more political parties each day, those of the middle class comprise the largest part, and the voice of the grassroots class is faint. Huang Shao-lun's analysis is that Hong Kong does not have a strong worker class consciousness, the most basic factor in this being the working people's hopes, which often are

that their children will rise into the middle class. Therefore, high hopes for equal opportunities to rise into the middle class, and a strong attitude of "standing out among one's fellows," cause the nonappearance of strong grassroots political parties in Hong Kong. If there were to be a long-term economic recession in Hong Kong, class politics might be intensified for a short time. In addition, if there were a political need to avoid Hong Kong's spinning out of control, or, in other words, Hong Kong's taking the path of independence or Taiwan's stirring up a political storm in Hong Kong, the Chinese Communists have the possible threat of mobilizing the grassroots, thereby "dispersing two foes with one blow." But the Chinese Communists themselves also worry that once a disturbance occurs they will lose control. [passage omitted]



This is a U.S. Government publication. Its contents do not represent the policies, views, or attitudes of the U.S. Government. Citations to FBI or JPRS provided they do so in a manner that does not identify a secondary source.

Foreign Broadcast Information Service (FBIS) and other publications contain political, military, economic, environmental and other information, as well as scientific and technical information obtained from foreign radio and television broadcasts, news and periodicals. Items generally are processed from the foreign language inferred that they have been disseminated only in the medium of the original. Items from foreign language sources are translated; the transcription is described. Except for excluding certain diacritics, FBIS rendering is in accordance with the romanization systems approved for U.S. Government use of Geographic Names.

Headlines, editorial reports, and material enclosed in quotations are processed as such. Processing indicators such as [Text] or [Excerpts] in the original are retained in the information was processed from the original. Unfamiliar words are enclosed in parentheses. Words or names preceded by a question mark are enclosed in parentheses from the original source but have been supplied as appropriate. Parenthetical notes within the body of an item originate with the source. Passages in boldface or italics are as published in the original.

## SUBSCRIPTION/PROCUREMENT

The FBIS DAILY REPORT contains current news and information and is published Monday through Friday in eight volumes: China, East Europe, Central Eurasia, East Asia, Near East & South Asia, Sub-Saharan Africa, Latin America, and West Europe. Supplements to the DAILY REPORTs may also be available periodically and will be distributed to regular DAILY REPORT subscribers. JPRS publications, which include approximately 50 regional, worldwide, and topical reports, generally contain less time-sensitive information and are published periodically.

Current DAILY REPORTs and JPRS publications are listed in *Government Reports Announcements* issued semimonthly by the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 and the *Monthly Catalog of U.S. Government Publications* issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The public may subscribe to either hardcover or microfiche versions of the DAILY REPORTs and JPRS publications through NTIS at the above address or by calling (703) 487-4630. Subscription rates will be

**END OF**

**FICHE**

**DATE FILMED**

*19 Oct 94*

